The Incorporated Accountants' Journal.

THE OFFICIAL ORGAN OF

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Contents.

Professional Notes.

THE Finance Act has now received the Royal Assent, and we publish this month the portions bearing upon questions of taxation. Apart from the matters referred to in our Professional Notes of last month, the chief amendments of the law consist of the repeal of inhabited house duty subsequent to the year 1923-24, the discontinuance of corporation profits tax as from June 30th, 1924, and the exemption from stamp duty of receipts for salaries, wages and superannuation allowances.

There are also a few minor amendments, one of which increases from £45 to £60 the deduction from assessable income in respect of relatives acting as housekeepers or taking charge of the children of widows or widowers. Another provides that any addition to salary or remuneration by way of war bonus or any like temporary increase or addition granted in order to meet the increase in the cost of living, is to be deemed to be chargeable as an addition to the salary or remuneration, and not as a perquisite under Rule 4 of Schedule E. It is also provided that repayment of income tax is to be made at the standard rate for the year of reclaim, except in cases where the deductions to which the taxpayer is entitled leaves no taxable income, in which case repayment is to be made of the whole amount of the tax paid.

One of those decisions which to the ordinary mind seems quite unfair and unreasonable was given recently by the Court of Appeal in the case of *Evans* v. *The Postmaster-General*. The first duty of a postman on a certain day was to clear a pillar box at 4 p.m. He was riding on his bicycle to the pillar box, wearing his uniform and carrying his bag and keys, when he met with an accident which resulted in his death. The Court came to the conclusion that the accident did not arise out of or in the course of his employment as his duties did not commence until he was at the pillar box. Seeing that he could not clear the box without the Post Office bag and keys, it is somewhat difficult to understand how he could be in a position to perform his duties without carrying the bag and keys with him and thus being engaged on the work of the Post Office. The only alternative seems to be that he undertook to do part of the Post Office work in his own time.

It will probably be remembered that the chief factors in deciding as to whether a foreign principal is, through his agent, carrying on business in this country are (1) the place where the contract is made, (2) the place where the goods are delivered, and (3) the place where payment is made; and number one has always been regarded as the most important. Hitherto the case of *Wilcock* v. *Pinto and Co.* has accordingly been looked upon as exceptional, inasmuch as Mr. Justice Rowlatt gave judgment in favour of the foreign trader although it was proved that the contract was made in this country, the grounds of his decision being that a commission agent or broker who sells goods on behalf of a non-resident principal, and whose activities are confined to finding a market for his principal's goods, is not assessable to income tax in respect of his principal's profits or gains.

This decision has now been reversed by the Court of Appeal, who found that there was no evidence that the agent was acting as a broker, and as the contracts were all made in England the principal was carrying on business in this country through an agent and was liable to be assessed to income tax in the name of his agent. The principle is thus more firmly established than before that the main factor in these cases is the place where the contract is made. The course of business in the case under notice was that the agent either sold specified quantities of goods within prices fixed by his principal or obtained offers to purchase which he submitted to his principal for acceptance or rejection. In either case the acceptance or rejection was advised to the customer by the agent. The goods were delivered c.i.f. and payment was made to the principal direct.

The case of *Back* v. *Daniels*, recently decided by Mr. Justice Rowlatt, raised an important question as to which Case of the Income Tax Act was applicable in assessing a firm of wholesale potato merchants and potato growers in respect of the portion of their profits derived from potato growing. Besides their merchanting business the firm grew potatoes partly on land which they owned and occupied, partly on land of which they were tenants, and partly on land which they held from farmers on special agreements under which they could use the land for potato growing only, the farmers contracting to do certain work in connection with putting in the crop. The Inland Revenue claimed that the potato growing was part of the general business of potato merchants and that the firm were assessable under Schedule D on the whole of their profits. The respondents contended, on the other hand, that as they were in complete occupation of the land under all the agreements above mentioned they were assessable on the profits derived therefrom under Schedule B, and that the assessments under that schedule should have been made upon them and not upon the farmers. His Lordship held that the respondents were in occupation of the land, and that the only assessment that could be made on an occupier of land was under Schedule B. Judgment was accordingly given against the Crown.

An important decision under the Rent Restrictions Acts was given in the case of *Biddell* v. *Morris* (*Inspector of Taxes*), in which the question arose as to whether, when a landlord was allowed to increase the standard rent by 25 per cent. if he carried out repairs, the increase was part of the rent or was an indemnity to him for the repairs outside the rent altogether. Mr. Justice Rowlatt said that the decision must be in favour of the Crown. If the landlord did not have to spend the 25 per cent. on repairs it did not make any difference. On the other hand, if he had to spend more he did not receive more. The allowance was not an allowance by way of indemnity for repairs but was an increase of rent. He agreed that the operation of the decision might be a little hard on the landlord who was allowed to add 25 per cent. to the rent, but was only allowed to deduct one quarter of it for taxation.

At the Guildhall last month a firm of London accountants was prosecuted at the instance of the Ministry of Labour for failing to pay unemployment insurance in respect of five of their employees. Fines amounting to £10 were imposed and an order made for the payment of £4 4s. costs and £12 8s. 2d. arrears of contributions.

The report of the Chief Registrar of Friendly Societies contains some interesting reading. It is quite clear that these societies have suffered very seriously from defalcations by their officers, and the arrangements in force with regard to the audit of their accounts are in many cases worse than useless, as they create an unjustified feeling of security. This is fully realised by the Registrar, who is doing what he can to introduce audits by professional accountants. He says that a noticeable feature of recent years has been the increasing frequency with which defalcations on the part of the officers of the societies are brought to light, particularly in the case of stewards of working men's clubs registered under the Friendly Societies Act and ex-Service men's clubs registered under the Industrial and Provident Societies Acts. "In these institutions," he says, "it sometimes happens that four or five stewards in succession have to be dismissed in the space of a very few months for a shortage in bar takings. The discovery of the defalcation is usually made as a result of the auditor's investigations, which, in some cases, have been prompted by inquiries from this office."

Later in his report the Registrar points out that where a committee of management carries out its duties and competent auditors are appointed there is little danger of defalcation, and in the few cases where a default might take place it would probably be discovered before much money had been lost.

As examples of what actually takes place, the Registrar cites a case where two platelayers had for some years acted as auditors of a branch and certified the accounts as correct. Subsequently an accountant was appointed as auditor, and in the course of his investigation discovered that although the annual return for the preceding year showed an amount of £458 in the bank on current account, the actual balance was only £14. In another case a professional accountant was called in to investigate the accounts of a friendly society on the resignation of the secretary, when it was found that the cash supposed to be in the hands of that officer was deficient to the extent of £200. In this society there had previously been lay auditors, who did not call for production of the bank pass book and did not count the cash in hand nor check the additions of the contributions book. Why such a state of affairs is allowed to go on is not easy to understand.

The Registrar also encounters many difficulties with regard to the annual returns which these friendly societies have to send in, and any suggestion that professional assistance should be employed is objected to on the ground of expense, but it is pointed out that in many cases where such assistance is enlisted the expense is more than justified by the recovery of moneys from the accounting officers and in other directions. As an example, it is often found that when officers have been guaranteed, the benefit of the guarantee is lost through non-compliance with the terms of the policy as to notifying the guaranteeing body of the defalcation.

In his report on Trade Unions, the Registrar finds similar looseness in regard to accounts, but, as will be seen by a perusal of the extracts which we publish in another column, the unions are reluctant to accept the view that any professional assistance

with regard to their accounts is either necessary or desirable. The examples given by the Registrar, however, seem fairly conclusive as to the need.

In another column will be found a suggestion by a correspondent for a new form of capital levy, under which limited companies would have to raise their capital by a certain percentage and allot that percentage in shares to the Government, who would take the dividend in the same way as an ordinary shareholder, without having any voting powers or right of interference in the management. In the case of firms and individuals the net profit would be divided as dividend on capital, whether paid to the proprietors or not, and the proportion due to the Government paid over. It is claimed that this scheme would produce sufficient revenue to allow for a large reduction in the duties on tea and sugar and for the raising of the limit of personal allowances now granted to taxpayers.

Our correspondent seems to think that an assessment of this character would not be seriously felt, but if his estimate of £50,000,000 additional revenue is anything like correct it is somewhat difficult to see how he arrives at his conclusion. Moreover, the tax would be a further burden on industry which for years it has been the constant endeavour to get reduced. The proposal would have practically the same effect as an additional income tax, with this distinction, that public companies would be assessed only on the dividends distributed, while firms and individuals would have to pay on the profits actually made. The exemption of companies with share capital of less than £5,000, on the assumption that their profits will be correspondingly small, is also a feature which would hardly be justified by the facts.

The opinion is expressed by our correspondent that unearned investments should not produce more than 15 per cent. at the outside, but he does not seem to have contemplated that the present holders of the shares in these companies have in the majority of cases paid for their shares at much more than their nominal value and therefore do not receive anything like 15 per cent. We fear that any attempt to raise revenue without anyone seriously feeling it is doomed to failure, and a proposal to give larger personal allowances at the expense of industry, under present difficult conditions, is not likely to meet with much approval.

There seems to be some misgiving amongst rubber producers as to the effect of the scheme of restriction of output which has been in force for some time. The output of the companies who have adopted the scheme has now been reduced to 55 per cent. of the standard, but notwithstanding this there is no material effect on the price of the commodity since the last reduction. In some quarters there is a feeling that it might have been as well to leave the industry to work out its own salvation without any artificial assistance, as so far the main advantage appears to have fallen to the Dutch companies who refused to join in the scheme. These companies have been able to dispose of their total output while the companies within the scheme have been heavily handicapped, and some of them are seriously contemplating the possibility of not being able to show a profit with an output restricted to about half their full capacity.

Under the provisions of the Termination of the Present War (Definition) Act, 1918, the Privy Council has fixed August 6th, 1924, as the date of the termination of war between this country and Turkey.

Preference Shares and Capital Reduction.

THE past few months have been marked by a flood of capital reduction schemes designed to deal with the results of the inflation of the immediate post war years. Several interesting points have emerged from certain of the schemes put forward, notably the difference in treatment meted out to preference shareholders. In one or two instances the preference shares appear to have received scant consideration, and the holders concerned have voiced their protests in no uncertain manner. In other cases there appears, at first sight, to have been an earnest endeavour to keep preference capital intact and also to make some compromise in the matter of arrears of cumulative dividends. Without detailed information of the provisions in the Articles of Association it is impossible to express an opinion upon the merits of each scheme. In addition a knowledge of the exact circumstances under which a class of shares was issued is essential in forming an opinion upon the rights attaching in any eventual capital reduction.

The rules governing the rights of preferred shares are not numerous, but the variations which have been sanctioned by the Courts are of the greatest importance. They require the closest study from those whose difficult task it is to salve what little remains of foundering companies, and they should be expounded by the accountant whenever the conduct of a capital reduction scheme is committed to his charge. It is first necessary to explain to the shareholder that there are many types of "preference" share, and that a preferred title does not necessarily confer an unassailable priority in times of stress. From several comments passed at recent confirmatory meetings it is obvious that many members of the public attach too much importance to nomenclature. There is also abundant evidence of an idea that the holders of shares called "preference shares" cannot, under any circumstances, be called upon to write off portions of their capital until the ordinary shares have been entirely extinguished. To correct this impression it is first necessary to refer the shareholder to the Memorandum and Articles of Association of his company. If a preference share carries a

preference in respect of dividend only, then it is not exempt from reduction equally with the ordinary share. This rule holds good even in cases in which the reduction is set afoot at a meeting at which the preference shareholders have no vote (*Bannatyne* v. *Direct Spanish Telegraph Company* (1887)). Many holders of this class of share protest against the seeming injustice of this rule, pointing out that the reduction will result in a diminution of their preferred dividend. This protest does not take cognisance of the fact that the reduction is primarily a reduction of capital and that the diminution of dividend is but an accident of the re-organisation. Their shares carry no right whatever to capital, and it is only logical therefore to point out that a part of their interests, proportionately equal to that of the ordinary shareholders, has disappeared.

The preference share which carries a preferred right to capital as well as dividend presents a more difficult problem. It is first necessary to divide this class of share into three categories. The first category contains the share preferred both as to dividend and capital, with rights conferred by the Memorandum of Association containing an express prohibition against any variation. This share may be regarded, generally, as inviolable in capital reduction schemes until deferred shares have been entirely extinguished. The second category is composed of the share preferred as to dividend and capital, but which is subject to a clause in the Memorandum permitting a variation of rights. The manner in which the variation can be effected is usually set out in the articles, and it is therefore necessary to ascertain whether the granting of a preference in this category is not subject to an ordinary majority vote. A class of share which differs but slightly from that in the second category is the preferred share which might possibly be affected by a resolution under sect. 120. It is convenient to place this share within the second category, for it may be defined as a share carrying a preference as to capital and dividend conferred by a Memorandum of Association which does not stipulate that it shall be inviolable and does not provide that it may be altered. It is subject to sect. 120, which permits compromises between a company and its members or any class of its members, for as was shown in the case of *Schweppes, Limited* (1914), these compromises rightly include variation of rights even where preferences are stated in the Memorandum.

The third category of share preferred as to dividend and capital is that in which the Memorandum is silent as to rights and merely specifies the titles and numbers of the classes of share. In such cases the rights are conferred by the Articles, and in the absence of any specific contract the shares naturally rest upon no surer ground than that they are safe until the company alters its Articles (*Allen* v. *Gold Reefs of West Africa* (1900)).

The allocation of a particular share to one or other of the three categories set out above does not complete the examination into the merits or demerits of a dissentient shareholder's protest. A further test, and a most important test, must be applied. In the words of Lord Macnaghten (A.C.; (1907) p. 239), "when the rights of creditors do not intervene, the only questions to be considered are:

"(1) Ought the Court to refuse its sanction to the reduction out of regard to those members of the public who may be induced to take shares in the company? And

"(2) Is the reduction fair and equitable as between the different classes of shareholders?"

These two questions, which introduce considerations of equity and the public's interest, are of the utmost importance even in cases in which a preference share is apparently secure. The surrounding circumstances of each case must be taken into account to ascertain whether or not equity demands the sanction of a scheme which does not apparently give due consideration to preferred rights. The conditions under which the whole of a preference issue was passed to vendors for considerations other than cash may, for example, demand investigation before the holders' contention that the whole burden of capital reduction should fall upon the ordinary shareholders can be endorsed. It might conceivably appear, in that and in similar instances, that it would be inequitable for the general public who subscribed cash to forego the whole of their interest before any reduction falls upon the vendors. It may be taken as a general rule that any unfair capital reduction scheme, even though based upon the strict rights of the members, will fail to obtain sanction if its unfairness acts harshly upon a class of members (*Barrow Hæmatite Steel Company*, No. 2, 1900). A fair scheme, on the other hand, is almost certain to obtain sanction even though it brings about an alteration in the rights of a particular class (*Credit Assurance and Guarantee Corporation* (1902) 2 Ch., 601). The expression of an opinion upon the rights of a share in a capital reduction scheme cannot be dogmatic until all factors have been duly weighed. By applying the tests enumerated above the accountant may often assist in the alleviation of the burden which dissentients, in their indignation, impose upon those who accept the task of carrying through a capital reduction.

Professional Dinners.

[By ALBERT CREW.]

As soon as the holidays are over professional dinners will follow one another in quick succession, and, *inter alia*, the various District Societies of Incorporated Accountants, with their respective Student Societies, meet to eat and drink and—to speak. The unfortunate committee or unhappy secretary who has the control of the dinner arrangements has many troubles to encounter. The most delicate is the difficulty in selecting the persons who shall sit above the salt and of those who shall speak. The Benchers of one of the Inns of Court have a wise custom based on the rules of true hospitality. Before proceeding to hall, names are recited in couples: the name of a guest and the name of a master of the bench. It is the duty of each master to pilot and look after his own guest

during dinner and dessert. The Inns of Court, of course, have the great advantage of dispensing hospitality in their own homes, which gives it an intimacy not to be found in the best hotel or restaurant. With the members themselves, the difficulty of arranging places is partly solved by putting the Council at the top table, and the rank and file in the less exalted seats. But what of the guests? Questions of precedence and honour and which guests shall speak, are matters which the Committee and Secretary have to settle with courage and fortitude—and sometimes with resignation.

The trouble nowadays is that the modern professional dinner is usually accompanied by the apparently necessary evils of music and speaking. Music and public speaking are excellent in themselves, but as an accompaniment to a dinner they do not always make for success. We sympathise with the learned Dean of St. Paul's in his objection to music at dinners—music which every now and then rudely interrupts the intimacy and dispels the harmony between guests and members whilst engaged in the gentle art of conversation. But a far greater nuisance are the long dreary speeches which are sometimes inflicted upon the helpless diners. It is to be feared successful and, in a less degree, eminent personages have not usually the gift of after-dinner speaking—they are dull and prosy and take no thought of the flight of time, and sometimes, it seems, of to-morrow. The hearers may accordingly suffer after the dinner is over, unless there is a convenient door of relief near at hand, but it is some consolation to them to know that the speakers have their full share of sorrow as well.

There are generally two classes of unhappy folk during a dinner, those who have to speak—there is usually no difficulty in picking them out in their well deserved misery—and those whose more unfortunate lot it is to take a verbatim note of the aforesaid dreary speeches. The worst experience is that of the genuinely humane man who has come to enjoy himself, and is suddenly asked by the secretary during the dinner to fill the vacancy caused by the absence of one of the arranged speakers. With a deep but quiet groan of despair he pushes food and wine aside and takes neither bite nor sup until the dreaded ordeal is over. Unfortunately all men are not humane, and many rejoice secretly at the opportunity of filling the festive air with their portentious periods, which like Tennyson's brook seem to go on for ever. It is to be feared that speakers sometimes enjoy or, at least are indifferent to, the misery they cast on their hearers, and it is one of the privileges of the less distinguished person that the door of exit is usually close at hand for escape in time of need.

Pett Ridge in his "Story Teller"—which is a mine of good stories for the after dinner speaker—says that the business of after dinner speaking is complex, because if a man knows he is doing well he feels there is no good reason why he should stop; if he is not doing well he goes on in the desperate hope that he may do better.

Apparently there is no escape from after dinner speaking, and that being so each speaker should have a strict time limit, and perhaps with a diffident suggestion that a little humour would not be altogether out of place. But who is going to bell the cat and instruct the speaker how long he shall hold forth? It cannot be done and is not done, and everyone suffers accordingly. A counsel of perfection would be to have no speeches and no music, and leave members and their guests to entertain one another. But there is a fly in every ointment—and every professional dinner. On the other hand, it is not to be denied that some after dinner speaking is very welcome, especially if spiced with good humour and better stories. Judging from the full and lively reports in the *Journal*, the dinner functions of accountants, including those of students' societies, are carefully organised, and the speakers selected who can give some sound advice interspersed with capital stories, thus sugaring the pill so that the pill is hardly discernible.

Too many speakers adopt the heavy father style in addressing students on a festive occasion, and the more pompous adopt the same procedure to grown ups. Some after dinner speaking consists of delightful fooling, and in this connection a good story is told of an invitation sent by Manchester accountants to the late Sir John William Maclure. At the dinner he recounted the many difficulties he had experienced in attending at all. "I must tell you, gentlemen, that Mr. Balfour said to me, 'Sir John, it is impossible to carry on the House if you leave us.' 'But, sir,' I said, 'I have to dine with the Manchester accountants.' 'Ah,' said Mr. Balfour, 'then I won't keep you; but tell that excellent body from me how much I admire them.'" (Great cheering.) "But that is not all, gentlemen. In Westminster Hall I met Lord Salisbury, and I had the greatest difficulty in getting away from him. He wanted me to come down to Hatfield with him. I said, 'What, my lord, and break my word to the Manchester accountants?' 'No,' said Lord Salisbury, 'of course you mustn't, but I tell you what you must do; you must tell them from me that without accountancy the nation would be ruined.'" (More cheering.) "But, gentlemen, it did not end there, for at the railway station I found there was a special train just going to Sandringham. I was sent for, and the Prince of Wales was gracious enough to request me to come down and spend Sunday with him. 'Sir,' I said, 'such a kind request is a command, but I have promised to be with the Manchester accountants to-night.' 'Not another word, Maclure,' said the Prince. 'Keep your appointment, and tell the Manchester accountants that in my view they are the backbone of the nation.'" (Long and continued cheering.)

Following Sir John was a speaker who, speaking in faltering tones, said he did not move in the select circles that Sir John Maclure did, "but," he continued, "I happen to know on the highest authority the regard in which he is held by the greatest in the land. I was strolling in the gardens at Windsor the other day, and a Scot's servant in a kilt came up and asked me if I came from Manchester. I said I did. 'And do you know Sir John William Maclure?' 'Very well,' I replied.

'Come with me, then,' he said, and he led me into a beautiful drawing-room in the Palace, in which I found I was in the presence of royalty itself. After a courteous greeting I was asked what I knew about Sir John William Maclure. I drew a noble picture of all the virtues and attainments which endear him to Manchester men. When I had finished, the gracious lady said, with a sigh of relief: 'You have taken a great load off my mind, for I was not at all sure that he was a good companion for Albert Edward.'"

Pett Ridge says that if a story is told in private it should be new; for a story told in public this element is not indispensable. Offered to a large audience there is the likelihood that only the minority have heard the anecdote before, and some of them may not object to hearing it again.

The following story is reminiscent of the period when it seemed rather obvious "that the female of the species is more deadly than the male." A male loafer insisted on putting a question to a fair suffragist. "Straight answer is what I want," he said. "You've been talking a lot about equality, and all that, and I wish to put this to you, Miss. 'Don't you wish you were a man?'" "Of course," said the girl promptly, "Don't you?"

The Times had an interesting leader recently on after dinner speaking, from which we cull the following:—"Good speeches of the sort that goes with port and nuts have this in common with love making, that they must arise from their occasion. They depend for their success less upon the merit of the man than upon the mood of his audience. They are often most acceptable when they are least wise, and their rewards are charming but ephemeral. The delicate spices of flattery and laughter and good humour constitute true after dinner speaking. You must express yourself in your own words without being an egoist; you must take your hearers into your confidence without exhibiting a desire to instruct them; you must know exactly when they are beginning to want more of you. And at that instant you must sit down and leave them happy in their disappointment."

There is one matter which dinner stewards often overlook. Some curious creatures, despite the apostolic injunction of taking a little wine for their stomach's sake, prefer "soft drinks," and we know of at least one of these strange people whose soul on these occasions yearns after a stone ginger with a slice of lemon in it! Too often no adequate provision is made for these idiosyncrasies—with the result that these perverse people can only get what they perhaps deserve, as supplied by the local water board. *De gustibus non est disputandum.*

MR. ARTHUR E. GREEN.

Mr. Arthur E. Green, Past President of the Society of Incorporated Accountants and Auditors, and Chairman of the Finance Committee of the Council, who is on a visit to Canada, has been somewhat seriously indisposed, but we are pleased to say that he is now making good progress towards recovery.

Society of Incorporated Accountants and Auditors.

EXAMINATION RESULTS.

SOUTH AFRICAN (EASTERN AND WESTERN) COMMITTEES.

MAY, 1924.

Final.

Alphabetical Order.

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(7 *Candidates failed to satisfy the Examiners.*)

Intermediate.

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Final.

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REPORT ON TRADE UNIONS.

The following extracts from the Report on Trade Unions for the year 1922 by the Chief Registrar of Friendly Societies shows the laxness of some of these unions with regard to their accounts.

EXAMINATION OF ANNUAL RETURNS.

During the course of examination it was found necessary to send back a number of returns for correction, and in certain cases considerable difficulty was experienced in securing correct accounts. The unions concerned were urged to obtain the assistance of qualified accountants. Generally speaking, however, unions are reluctant to accept the view that any professional assistance in the preparation of their accounts is either necessary or desirable, although there are noteworthy exceptions.

Many unions still fail to furnish their accounts by the prescribed date in spite of the fact that this date is five months after that to which the accounts should be made up. One union attributed the delay in furnishing its return to the difficulty it experienced in obtaining particulars from its branches.

Several unions found it necessary to amend the balance of funds brought forward from the previous year either on account of items having been omitted from the previous balance-sheet or owing to the adjustment of accounts of the preceding year. In one instance assets amounting to £5,325 were brought into account for the first time. They included a sum of £4,025 collected for political purposes several years earlier. Before 1921, the accounts of this union were audited by lay auditors. Another union had failed to include in the 1921 balance-sheet a sum of £6,741, due from the Ministry of Labour in respect of unemployment insurance. The omission was brought to light when the union discontinued the administration of State unemployment insurance.

From a comparison between the printed accounts and the return furnished by one union, it was ascertained that funds coming under the control of the registered rules had been omitted from the return. In another case the comparison showed that the benefit funds included a sum which represented a liability on the part of the union in respect of the superannuation funds of its employés. In both instances arrangements have been made for funds to be shown correctly in future returns.

The number of auditor's special reports was comparatively small. Where, however, a special report was made it was usually by a professional accountant, and of an exhaustive character. The following is a summary of two of the more important:—

(*a*)—(1) No real attempt has been made to keep the books properly posted up. (2) We have not been assisted by the assistant general secretary, who, when asked about various matters, replied: "You are the auditors, it's your business to find out." (3) Some 60 receipts are not available. An investigation made by officials appointed by the council of the union as a result of this report, showed that a sum of £100 12s. 9d. was not accounted for, and the union decided to terminate the services of its assistant general secretary.

(*b*)—(1) Certain items of cash treated as paid into bank were not credited by the bankers for some time after they were shown in the cash book as paid in. (2) Relief sheets not signed by recipients of the relief. (3) Assets omitted from previous balance-sheet. (4) Vouchers missing. In this case the auditor stated that the recommendations contained in his previous reports had been generally adopted and had tended considerably towards increased efficiency.

Society of Incorporated Accountants and Auditors.

MEMBERSHIP.

The following additions to, and promotions in, the Membership of the Society have been completed since our last issue:—

ASSOCIATES TO FELLOWS.

BUZZACOTT, FREDERICK WILLIAM (Buzzacott, Lillywhite & Co.), 5, Budge Row, Cannon Street, London, E.C., Practising Accountant.

DAVEY, FREDERICK, Director of Accounts, Finance Department, Ministry of Labour, Queen Anne's Chambers, Westminster, London, S.W.

DAWSON, ALFRED BRADLEY, Borough Treasurer, Town Hall, Wigan.

DOLBY, CHARLES MENLOVE (Charles E. Dolby & Son), 51, North John Street, Liverpool, Practising Accountant.

GREGORY, JOHN, 2, Rectory Chambers, 24, Norfolk Row, Sheffield, Practising Accountant.

PLATTS, THOMAS HAROLD (Forrest, Son & Platts), 32, Union Street, Birmingham, Practising Accountant.

RIMINGTON, THOMAS, 43, Gallowtree Gate, Leicester, Practising Accountant.

SUGDEN, BENJAMIN, St. George's Chambers, Athol Street, Douglas, Isle of Man, Practising Accountant.

ASSOCIATES.

BATSFORD, ARTHUR JOHN LEONARD, Clerk to Mannington and Hubbard, 41, Havelock Road, Hastings.

BLOOM, JOHN EMERY INSKIP, H.M. Registry of Friendly Societies, 19, Heriot Row, Edinburgh.

BROWN, THOMAS HENRY, Clerk to C. Percy Barrowcliff & Co., 55 & 57, Albert Road, Middlesbrough.

CADE, ERIC CYRIL, Clerk to W. G. Hodges & Co., Hills Buildings, Maitland Street, Bloemfontein.

DAVIES, REGINALD JAMES, Clerk to Broads, Paterson & Co., 1, Walbrook, London, E.C.

DEWEY, WILLIAM PARKIN, Clerk to W. B. Peat & Co., Royal Exchange, Middlesbrough.

ETHERINGTON, HUBERT, Crooms Hill House, Blackheath, London, S.E., Practising Accountant.

EVANS, FRANK, Borough Treasurer's Department, The Old Guildhall, Plymouth.

EVANS, LEONARD WILLIAM HENRY, Clerk to Camm, Metcalfe and Co., Town Hall Chambers, 87, Fargate, Sheffield.

EVANS, WILLIAM VICTOR, City Treasurer and Controller's Office, Municipal Buildings, Liverpool.

GILSON, GEORGE WILLIAM, National Insurance Audit Department, Dudley House, Endell Street, London, W.C.

GOODMAN, FREDERICK CHARLES, Clerk to Fuller, Wise, Fisher & Co., Bassishaw House, Basinghall Street, London, E.C.

HAMMOND, JOHN CLIFFORD, Clerk to Walton, Watts & Co., Canada Chambers, 36, Spring Gardens, Manchester.

HEALE, FRANCIS JOHN, Deputy Borough Treasurer, Weymouth.

HILL, WILLIAM CROCKER, County Accountant's Department, Cheshire County Council, The Castle, Chester.

HILLYARD, ARTHUR STANLEY, Borough Treasurer's Department, Town Hall, Bournemouth.

HOPKINS, CHARLES WILLIAM, Clerk to Blakemore, Elgar & Co., 9, King's Bench Walk, Temple, London, E.C.

HUGGAN, JOHN, Borough Treasurer's Department, Town Hall, Pudsey.

JACKSON, GEORGE GRAHAM, Clerk to T. A. Platt, Alexandra Buildings, 28, Queen Street, Albert Square, Manchester.

KEMPSTER, HAROLD GELL, Clerk to Hilton, Sharp & Clarke, 4, Pavilion Buildings, Brighton.

KENDALL, AUBREY, Borough Treasurer's Department, Town Hall, Portsmouth.

KENDALL, RUTH GLADYS, Clerk to S. F. Cornish & Co., 37, Walbrook, London, E.C.

KENNINGTON, HAROLD SPEECHLEY, Clerk to Smailes, Drury and Holtby, Austin House, Chapel Street, Hull.

MADDOCK, JACK, Clerk to W. J. Ching, Princess Chambers, 8, Sussex Terrace, Princess Square, Plymouth.

MAGSON, HORACE, Accountant's Department, Willesden Urban District Council, Town Hall, Kilburn, London, N.W.

MALYON, ERNEST CHARLES, Clerk to E. S. Howard, Pye & Co., 26, Budge Row, Cannon Street, London, E.C.

MASON, RICHARD JOHN, Clerk to George A. Touche & Co., Basildon House, 7-11, Moorgate, London, E.C.

PATTERSON, GEORGE HENRY, Clerk to J. Earle Hodges, Wright, Judd & Co., Ridgway House, 40/42, King William Street, London, E.C.

PIPER, JAMES HENRY, Clerk to Kain, Brown, Bennett & Clark, 59, Chancery Lane, London, W.C.

ROBINSON, FREDERICK HOPE, City Treasurer's Department, The Council House, Birmingham.

ROGERS, GEORGE JAMES ARTHUR, Delegation of the Committee of Guarantees, Reparation Commission, Berlin.

SAMUDA, WILFRID SYLVESTER, Clerk to Matthews, Wiseman and Co., 69, Victoria Street, London, S.W.

SEEGER, RUDOLPH HERMAN, Clerk to Smith & Hayward, London and Yorkshire Bank Chambers, Tyrrel Street, Bradford.

SEMPLE, ALEXANDER MCCRONE, Clerk to W. B. Peat & Co., 11, Ironmonger Lane, London, E.C.

SMITH, WILLIAM RICHARD, Clerk to Wheeley & Co., Ruskin Chambers, 31, Scale Lane, Hull.

STOBBS, ROBERT, Clerk to Vasey, Oliver & Co., 37, King Street, South Shields.

STREET, GEORGE WALTER, Clerk to Ronald Dryden, Alliance Buildings, 37, Cross Street, Manchester.

STURGESS, ALBERT BERINA, Clerk to Viney, Price & Goodyear, 99, Cheapside, London, E.C.

TROUNCE, NORMAN LEONARD RASHLEIGH, Clerk to Spence, Paynter & Morris, 6, Wardrobe Place, Doctors' Commons, London, E.C.

VERO, WILLIAM, Captain, Corps of Military Accountants, War Office, London, S.W.

WINDSOR, GEORGE ARTHUR, Clerk to Fuller, Higgins & Co., 39, Albion Street, Leeds.

WOODS, THOMAS FREDERICK, Clerk to Alexander Nisbet & Co., 3, Lincoln's Inn Fields, London, W.C.

ARMY COST ACCOUNTS.

Mr. WALSH (Secretary for War), in reply to a question in the House of Commons, said he had appointed a Departmental Committee to consider the detailed revision of accounting methods on the basis of the maintenance of the general scheme of Army accounts on a "cost" basis. The composition of the committee was as follows: Mr. J. B. Crosland, Deputy Under Secretary of State for War, chairman; Mr. J. J. Beard, Army Audit staff; Lieut.-Colonel G. H. Charlton, Corps of Military Accountants; Colonel W. B. Lauder, Royal Army Pay Corps; Mr. A. T. V. Robinson, Controller of Cost Accounts; Mr. C. F. Watherston, War Office Actuary and Director of Finance Designate; Mr. A. E. Watson, Treasury Officer of Accounts; Mr. P. J. Bell, War Office, secretary.

The Committee will report to the Army Council. When this Committee on Processes of Accounting has made some progress, he proposes to appoint another Committee to deal with the questions of personnel connected with the amalgamation of the Royal Army Pay Corps and the Corps of Military Accountants.

FINANCE ACT, 1924.

The following are the provisions of the Act so far as they relate to Income Tax, Corporation Profits Tax, Inhabited House Duty, and miscellaneous matters:—

PART II.

Income Tax and Inhabited House Duty.

INCOME TAX AND SUPER TAX FOR 1924-25.

19.—(1) Income tax for the year 1924-25 shall be charged at the rate of 4s. 6d., and the rates of super tax for that year shall, for the purposes of sect. 4 of the Income Tax Act, 1918, as amended by the Finance Act, 1920, be the same as those for the year 1923-24.

(2) All such enactments relating to income tax and super tax respectively as were in force with respect to the duties of income tax and super tax granted for the year 1923-24, other than sects. 20, 22, 27 and 31 of the Finance Act, 1923, shall have full force and effect with respect to the duties of income tax and super tax respectively granted by this Act.

(3) The annual value of any property which has been adopted for the purpose of income tax under Schedules A and B for the year 1923-24 shall be taken as the annual value of that property for the same purpose for the year 1924-25:

Provided that this sub-section shall not apply to lands, tenements and hereditaments in the administrative county of London with respect to which the valuation list under the Valuation (Metropolis) Act, 1869, is by that Act made conclusive for the purposes of income tax.

REPEAL OF INHABITED HOUSE DUTY.

20.—Inhabited house duty shall not be chargeable, in the case of Scotland, in respect of any year subsequent to the year ending on May 24th, 1924, and elsewhere in respect of any year subsequent to the year 1923-24.

INCREASE OF AMOUNT OF DEDUCTION UNDER SECTS. 19 AND 20 OF FINANCE ACT, 1920.

21.—The amount of the deduction to be allowed under sect. 19 of the Finance Act, 1920, as amended by this Act and under sect. 20 of the Finance Act, 1920 (which sections provide respectively for deductions from assessable income in respect of relatives taking charge of widowers' and widows' children or acting as housekeepers, and for such deductions in respect of widowed mothers, &c.), shall be increased from £45 to £60.

EXTENSION OF SECT. 19 OF FINANCE ACT, 1920.

22.—(1) Sect. 19 of the Finance Act, 1920 (which makes provision for a deduction in respect of relatives taking charge of widowers' or widows' children), shall be extended so as to apply to a person resident with a widower or widow in the capacity of housekeeper as it applies to a person resident with a widower or widow for the purpose of having the charge and care of children, and accordingly for sub-sect. (1) of the said section from the beginning thereof down to the proviso there shall be substituted the following:—

> "If the claimant proves that he is a widower and that for the year of assessment a person, being a female relative of his or of his deceased wife, is resident with him for the purpose of having the charge and care of any child of his or in the capacity of a housekeeper, or that he has no female relative of his own or of his deceased wife who is able and willing to take such charge or act in such capacity and that he has employed some other female person for the purpose he shall, subject as hereinafter provided, be entitled to a deduction of £45 in respect of that female relative or female person";

and the following shall be added after proviso (*b*) to the said sub-section—

> "and
>
> (*c*) Not more than one deduction of £60 shall be allowed to any claimant under this section in any year."

(2) References in any enactment to the said sect. 19 shall be construed as references to the said section as amended by this section.

EXEMPTION OF CERTAIN PROFITS OF AGRICULTURAL SOCIETIES.

23.—(1) Any profits or gains arising to an agricultural society from an exhibition or show held for the purposes of the society shall, if they are applied solely to the purposes of the society, be exempt from income tax.

(2) The expression "agricultural society" in this section means any society or institution established for the purpose of promoting the interests of agriculture, horticulture, live stock breeding or forestry.

AMENDMENT OF SUB-SECT. (3) OF SECT. 39 OF INCOME TAX ACT, 1918.

24.—Paragraph (ii) of the proviso to paragraph (*b*) of sub-sect. (3) of sect. 39 of the Income Tax Act, 1918 (which sub-section provides for the exemption from tax of certain income of savings banks), shall have effect as though for the words "where the interest paid or credited to any depositor in the year for which exemption is claimed by the bank exceeds the sum of £5" there were substituted the words "where in the year for which exemption is claimed by the bank, the interest paid or credited to any depositor out of the income of its funds, other than interest and dividends arising from investments with the National Debt Commissioners, exceeds the sum of £15."

AMENDMENT OF RULE 8 OF NO. V IN SCHEDULE A.

25.—Rule 8 of No. V in Schedule A shall have effect as if at the end of paragraph (2) thereof there were added the words "and shall also include additions or improvements to farmhouses, farm buildings, or cottages, but only if no increased rent is payable in respect of the additions or improvements and in so far as they are made in order to comply with the provisions of any statute or the regulations or bye-laws of a local authority."

RELIEF FROM TAX ASSESSED ON INCOME UNDER CASE V OF SCHEDULE D.

26.—The following rule shall be added after Rule 3 of the Rules applicable to Case V of Schedule D:—

"4.—Where a person who has been charged with tax in respect of income from a possession out of the United Kingdom proves that the total amount of tax, computed in accordance with Rule 1 of the Rules applicable to Cases I and II of Schedule D, which was paid in respect of that income for the first three complete years of assessment during which he was the owner of the possession, exceeds the total amount which would have been paid if he had been assessed for each of those years on the actual amount of the income of each year, he shall be entitled to repayment of the excess.

"An application for repayment under this rule shall be made within twelve months after the end of the three years aforesaid and shall be determined by the Commissioners by whom the assessment for the last of the said three years was made."

RIGHT OF APPEAL ON QUESTIONS OF DOMICILE, ORDINARY RESIDENCE AND RESIDENCE.

27.—(1) Any person who is aggrieved by the decision of the Commissioners of Inland Revenue on any question to which this section applies may, by notice in writing to that effect given to the Commissioners of Inland Revenue within three months from the date on which notice of the decision is given to him, make an application to have his claim for relief heard and determined by the Special Commissioners.

(2) Where any application is made under this section the Special Commissioners shall hear and determine the claim in like manner as an appeal made to them against an assessment under Schedule D, and all the provisions of the Income Tax Acts relating to such an appeal (including the provisions relating to the statement of a case for the opinion of the High Court on a point of law) shall apply accordingly with any necessary modifications.

(3) This section applies to the following questions:—

(*a*) Any question as to ordinary residence arising under sub-sect. (1) of sect. 46 of the Income Tax Act, 1918:

(*b*) Any question as to domicile or ordinary residence arising under paragraph (*a*) of Rule 2 of the Rules applicable to Case IV of Schedule D, or under paragraph (*a*) of Rule 3 of the Rules applicable to Case V of Schedule D;

(*c*) Any question as to residence arising—

(i) Under paragraph (*d*) of Rule 2 of the General Rules applicable to Schedule C; or

(ii) Under Rule 7 of the Miscellaneous Rules applicable to Schedule D in connection with a claim for repayment of income tax made to the Commissioners of Inland Revenue by the person owning the stocks, funds, shares or securities and entitled to the income arising therefrom, or entitled to the annuities, pensions or other annual sums, as the case may be, and from whose income a deduction has been made on account of the income tax assessed and charged under the said rule.

INCOME TAX ON WAR BONUS, &c.

28.—For the purposes of any assessment to income tax for any year which is made on or after, or has not become final and conclusive before, April 30th, 1924, or of any deduction on account of income tax for any year, any increase of or addition to any salary, remuneration, pension, annuity or stipend by way of war bonus, and any other like temporary increase or addition granted in order to meet the rise in the cost of living, shall be, and shall be deemed always to have been, chargeable to tax as salary, remuneration, pension, annuity or stipend, as the case may be, and not as perquisites under Rule 4 of the Rules applicable to Schedule E or under the fourth of the Rules for charging the duties under Schedule E in sect. 146 of the Income Tax Act, 1842.

RATE OF TAX AT WHICH REPAYMENTS IN RESPECT OF DEDUCTION OR ALLOWANCE UNDER PART II OF FINANCE ACT, 1920, ARE TO BE MADE.

29.—Any repayment of income tax for any year of assessment, whether ending before or after April 30th, 1924, to which any person may be entitled in respect of any deduction allowed under sects. 18 to 22 of the Finance Act, 1920, or in respect of the reduction of the rate of tax on the first £225 of taxable income under sect. 23 of that Act, shall be made at the standard rate of tax for that year, or at half that rate, as the case may be, but subject to such adjustments as may be proper in cases where relief is given in respect of Dominion income tax:

Provided that, in the case of any person who proves as regards any year that, by reason of the deductions to which he is entitled, he has no taxable income for that year, any repayment to be made shall be a repayment of the whole amount of the tax paid by him, whether by deduction or otherwise, in respect of his income for that year.

POWER TO RECOVER SUMMARILY SMALL AMOUNTS OF INCOME TAX.

30.—(1) Where the amount of any income tax for the time being due and payable under any assessment is less than £50, the tax may, without prejudice to any other remedy and without prejudice to the provision for recovery of income tax assessed and charged quarterly, be recoverable summarily as a civil debt, and sect. 29 of the Finance Act, 1921 (which relates to evidence of payment of wages in proceedings under sub-sect. 2 of sect. 169 of the Income Tax Act, 1918, for the recovery of income tax), shall apply in the case of proceedings under this section as it applies in the case of proceedings under that section and as if references therein to wages included references to salaries, fees and other emoluments.

(2) Proceedings under this section shall be commenced in the name of a collector of taxes.

EXTENSION OF SECT. 18 OF FINANCE ACT, 1923.

31.—Sect. 18 of the Finance Act, 1923 (which makes provision for the granting of relief in cases where profits arising from the business of shipping are chargeable both to British income tax and to income tax payable under the law in force in any foreign state), shall have effect as if references therein to a foreign state included references to any British Dominion, any territory which is under His Majesty's protection, and any territory in respect of which a mandate is being exercised by the Government of any part of His Majesty's Dominions.

CONTINUATION OF SECT. 21 OF FINANCE ACT, 1923.

32.—Sect. 21 of the Finance Act, 1923 (which grants an exemption for charities in the Irish Free State in respect of

income tax for the year 1923-24), shall apply with respect to income tax chargeable for the year 1924-25 as it applied with respect to income tax chargeable for the year 1923-24.

EXPLANATION OF INCOME TAX DEDUCTION TO BE ANNEXED TO DIVIDEND WARRANTS, &c.

33.—(1) Every warrant or cheque or other order drawn or made, or purporting to be drawn or made, after November 30th, 1924, in payment of any dividend or interest distributed by any company, being a company within the meaning of the Companies (Consolidation) Act, 1908, or a company created by letters patent or by or in pursuance of an Act of Parliament, shall have annexed thereto or be accompanied by a statement in writing showing—

(*a*) the gross amount which, after deduction of the income tax appropriate thereto, corresponds to the net amount actually paid; and

(*b*) the rate and the amount of income tax appropriate to such gross amount; and

(*c*) the net amount actually paid.

(2) If a company fails to comply with the provisions of this section, the company shall, in respect of each offence, incur a penalty of ten pounds:

Provided that the aggregate amount of any penalties imposed under this section on any company in respect of offences connected with any one distribution of dividends or interest shall not exceed one hundred pounds.

PART III.

Miscellaneous and General.

TERMINATION OF CORPORATION PROFITS TAX.

34.—(1) Corporation profits tax shall not be charged on profits arising in an accounting period commencing after June 30th, 1924.

(2) Where an accounting period commenced on or before, but ends after, the said June 30th the total profits of the accounting period shall be apportioned between the period up to and including that day and the period beginning immediately thereafter in proportion to the respective lengths of those periods, and corporation profits tax shall be charged on so much, but on so much only, of the profits as are apportioned to the period up to and including the said June 30th, and every such period shall be an accounting period for the purposes of Part V of the Finance Act, 1920.

AMENDMENT AS TO STAMP DUTY ON LEASES OF CERTAIN DWELLING HOUSES.

35.—Paragraph (1) of the heading "Lease or Tack," in the First Schedule to the Stamp Act, 1891 (which relates to the stamp duty on a lease or tack of any dwelling house or part of a dwelling house for a definite term not exceeding a year at a rent not exceeding the rate of ten pounds per annum), and paragraph (*a*) of sub-sect. (1) of sect. 78 of the said Act (which provides that the duty on any such lease or tack as is mentioned in the said paragraph (1) may be denoted by an adhesive stamp) shall have effect as though "forty pounds" were therein substituted for "ten pounds."

EXEMPTION FROM STAMP DUTY ON RECEIPTS FOR SALARIES, WAGES AND SUPERANNUATION, AND OTHER LIKE ALLOWANCES.

36.—The following exemption shall be substituted for exemption numbered (6) under the heading "Receipt given for, or upon the payment of, money amounting to £2 or upwards" in the First Schedule to the Stamp Act, 1891:—

"(6) Receipt given for or on account of any salary, pay or wages, or for or on account of any other like payment made to or for the account or benefit of any person, being the holder of an office or an employee, in respect of his office or employment, or for or on account of money paid in respect of any pension, superannuation allowance, compassionate allowance or other like allowance."

EXEMPTION FROM STAMP DUTY OF SECURITIES ISSUED UNDER TREATY WITH TURKEY.

37.—Stamp duty shall not be chargeable on any securities which, under the provisions of the Treaty of Peace with Turkey, signed on behalf of His Majesty at Lausanne on July 24th, 1923, are to be exempt in the territory of the contracting parties from all stamp duties.

EXTENSION OF SECT. 14 OF FINANCE ACT, 1900.

38.—(1) All such relief as might have been given under sect. 14 of the Finance Act, 1900, as amended by subsequent enactments (but not including sect. 2 of the Death Duties (Killed in War) Act, 1914), in respect of the death duties payable on property passing on the death of certain persons killed in the late war shall be given in respect of the death duties payable on the death of persons, being persons to whom this section applies, who died from wounds inflicted, accidents occurring, or disease contracted while on active service against an enemy, or on service which is of a warlike nature, or which, in the opinion of the Treasury, otherwise involves the same risks as active service.

(2) The persons to whom this section applies are the members of His Majesty's Forces who are subject either to the Naval Discipline Act or to military law, whether as officers, non-commissioned officers, or soldiers, under Part V of the Army Act, or to the Air Force Act.

(3) This section shall apply in the case of any persons dying from any such causes aforesaid arising after August 31st, 1921.

CONSTRUCTION, SHORT TITLE, APPLICATION AND REPEAL.

41.—(1) Part I of this Act so far as it relates to duties of customs shall be construed together with the Customs (Consolidation) Act, 1876, and any enactments amending that Act, and so far as it relates to duties of excise shall be construed together with the Acts which relate to the duties of excise and the management of those duties.

Part II of this Act shall be construed together with the Income Tax Acts.

(2) This Act may be cited as the Finance Act, 1924.

(3) Such of the provisions of this Act as relate to matters with respect to which the Parliament of Northern Ireland has power to make laws shall not extend to Northern Ireland.

(4) The enactments set out in the Third Schedule to this Act are hereby repealed to the extent mentioned in the third column of that Schedule.

Changes and Removals.

Mr. V. L. Andersson, Incorporated Accountant, has commenced public practice at 14, S.A. Mutual Building, Harrison Street, Johannesburg.

Mr. George Ashley, A.C.A., Incorporated Accountant, has commenced public practice at Ship Street Chambers, Ship Street, Brighton.

Messrs. Broomfield & Alexander have opened a further branch at York Chambers, High Street, Blackwood, Mon.

Mr. J. C. Cornelius, Incorporated Accountant, has commenced public practice at Great Western Building, Apollo Street, Bombay.

Messrs. C. L. Kettridge & Co., Incorporated Accountants, have opened an office at 7, Avenue Edouard VII, Shanghai, China.

Messrs. Lightfoot & Smith have removed from Brougham Chambers to 4, Middle Pavement, Nottingham.

Messrs. McAusland, Airey & Page announce that Mr. H. D. McAusland has retired from the firm, and the practice will in future be carried on under the style of Airey & Page, Incorporated Accountants, at 8, Victoria Street, Liverpool.

Messrs. John Potter & Harrison, Incorporated Accountants, have opened a branch office at 39, The Square, St. Anne's-on-the-Sea.

Mr. P. G. Stembridge, Incorporated Accountant, has commenced public practice at Midland Chambers, 26, Corporation Street, Birmingham.

Mr. L. A. Tomlinson, Incorporated Accountant, has commenced public practice at Wheeler Gate Chambers, Nottingham.

Mr. C. C. Willson, Incorporated Accountant, has removed to Windsor House, 46, Victoria Street, Westminster, London, S.W.

Partnership Accounts.

A LECTURE delivered before the Incorporated Accountants' Students' Society of London by

MR. H. S. LEWIS,
INCORPORATED ACCOUNTANT.

The chair was occupied by Mr. F. C. HARPER, President of the Incorporated Accountants' Students' Society of London.

Mr. LEWIS said: I appreciate very much this opportunity of coming before you this evening for the purpose of saying one or two things on the subject of partnership accounts, although I fear that to many of you I shall have very little new to say, most of you having been this road before. However, as the result of what I may say I hope some discussion will be stimulated that will enable us all to be the better for our meeting here this evening.

One has to consider, first, how to deal with a subject like partnership accounts in some 50 minutes, when as a rule it takes at least six ordinary lectures. One has further to decide which is the most helpful way of approaching the subject, and after some consideration I thought that possibly the most interesting and helpful way would be to go over very quickly the general outlines of partnership accounts rather than to devote special attention to some particular section of them.

Hence I propose to talk about the accounts in general outline, and if you will permit me I am going to suggest an arrangement which I sometimes call "biological." That is to say, we are told that the three great events in a person's life are birth, marriage and death. Whether that is so or not I must leave you to decide, but I propose to take that idea and apply it with slight alteration to the treatment of partnership accounts. Thus we might consider the beginning of a partnership, or the admission of a new partner—straining the simile somewhat—as the birth; then we proceed to the next stage, which suggests the living, or active part—the period of the partnership; and, lastly, we have the death, or what we commonly know as the dissolution.

Thinking first of all of the birth, or the beginning of a partnership, we have two cases, and the first is where there is a new partnership entirely. It may not necessarily be an entirely new business, as the persons concerned may have been working as sole traders and they may have decided to come together. On the other hand, it may be a new venture. In either case, the first thing one has to consider is what agreement shall be entered into—what shall be the terms. Oftentimes I fear there is not sufficient attention given to these, and hence later on one meets with difficulties arising out of loose wording, which sometimes, as most of you know, cause unpleasant disagreements.

PARTNERSHIP DEED.

The agreement may be verbal, or there may be an ordinary agreement or a deed. Preferably I suggest we should have the last, namely, a deed, and we should bear in mind that in a deed we should have a number of important clauses. As an aid in remembering these, there is a suggestive mnemonic consisting of the words "partners' acts." Each letter should suggest to our minds an important clause or clauses that should be incorporated in every deed of partnership.

Thus the first letter, "p," suggests "profits," and we link up with that reserves—a clause or clauses dealing with profits and reserves. The next letter, "a," suggests "accounts." The time when the accounts are to be prepared, and, of course, the period to elapse, are essential matters in a partnership deed. Next we have the letter "r," which suggests "rates of interest on capital," and, of course, we can associate with that any interest that should be charged on drawings. Then, again, we have the letter "t," which suggests the word "term"—the duration of the partnership. One need not necessarily insert the term, but as a safeguard I think it is better—say, a period of five or ten years. Five years is often long enough for two partners to get tired of each other; they usually want to clear out then, though that depends, of course, on the nature of the business. Then we have "n," which suggests the "nature of the business," which may or may not be referred to. Then "e" suggests "expulsion or admission of partners." There should be some safeguarding clauses under these headings. Then again we have "r"—the "rights" of individual partners, which have to be carefully noted. Next we have "s," which is suggestive of "salaries and drawings"—an important clause.

Then coming to the word "acts," the "a" suggests "arbitration clause," which is by no means unimportant when the partners themselves cannot agree. Next we have the letter "c," which suggests "capital and property of the firm," and "t," which refers to "termination and dissolution." Lastly we have "s," which suggests "sale or death," and we can link up with that the valuation of goodwill—that is, how it is to be arrived at. This mnemonic should be helpful to you in your examinations when the main clauses in a partnership deed are called for.

ADMISSION OF PARTNERS.

Now, dealing with the admission of partners, we can recognise two ways by which partners might be admitted. The one which is perhaps the more usual is by way of premium. If an established partner, after working, say, five years and building up a good connection, agrees to admit Mr. X, it seems quite reasonable that he should have some recognition for those five years' work, and that is arranged by means of a premium. There is an important point to remember here, namely, that the premium is not the property of the partnership—it belongs to the established partner or partners, and, therefore, from the accounting point of view, one would of course, as far as the actual capital introduced is concerned, debit the cash account of the firm and credit the respective partners' accounts.

But what about the premium? One of two ways may be adopted. The premium may be brought into the partnership accounts and credited to the established partner's capital account, recognising that it is his property, and he will, no doubt, as he should do, withdraw the amount immediately. The idea of passing the money through the firm's books seems to be for the purpose of record, and possibly it is a good plan on account of that. On the other hand, it being a private transaction, as it were, of the established partner or partners, there is no real reason that I am aware of, other than for the purpose of record, why it should be passed through the books of the firm. Therefore, the premium could be paid direct to the established partner or partners.

As regards admission by goodwill, that is sometimes not so readily grasped by students. Instead of asking an in-coming man to pay a certain sum as premium, it is comparatively easy, before the new man comes on the scene, to have a re-valuation of your assets, or, as is very often the case, to introduce goodwill. Many firms—sole traders and partners too—do not show anything for goodwill. It is quite legitimate to introduce a reasonable amount for goodwill. If we do that prior to the entry of the new partner, the result will be that we shall raise an asset account—*e.g.*, goodwill—which, of course, will be debited, and we shall credit the established partner's capital account, thus giving him additional capital without his introducing any more money into the business, and that should result in his getting an increased share of the profits.

If we compare these two methods, I think we might say that in the first case the established partner gets his money at once. He gets, as it were, a lump sum; his share of the profit then is not usually varied. In the other case, however, he takes, as it were, the long view: looks ahead and anticipates getting an increased share of the business arising from the profits thereof, rather than a lump sum. Hence, in deciding which method to adopt, one has to consider the particular business and the facts connected with that business.

I have hinted at the accounts that would be necessary—they are comparatively simple. In the first case—of premium—all one would have to do would be to debit cash and credit the new partner with the amount he has actually introduced as capital, and credit the amount of premium to the established partner's capital account; or, if the premium has not passed through the books, to show only the amount of capital introduced, and the premium payment to be a private transaction. In the case of goodwill, if the assets remain unaltered except goodwill—and it is merely a case of introducing goodwill—one would journalise goodwill, debiting goodwill account and crediting the established partner's account.

CAPITAL AND DRAWINGS ACCOUNTS.

Now let us pass to the second stage—what I suggested we should call the "life" of the partnership, or, if you like, the current working of the partnership. First, we have the two accounts that each partner may have, namely, capital account and drawings account, which obviously should be kept quite distinct for each partner. In the treatment of these accounts one has to notice rather carefully the question of adjustments—*e.g.*, interest on capital, or interest chargeable, and share of profit. All, except drawings, are debited or credited as the case may be, to the respective partner's capital account. Then the actual drawings are, of course, debited to the drawings account; and finally, at the end of the financial period, the drawings account would be closed to capital, and in the balance sheet there would appear for each partner one balance only, represented by his capital account.

There are, of course, various objections to that, which, if you will permit me, I will refer to in a moment. But perhaps in passing we can readily see that the result of that—using, if I may be permitted to use the term, the capital account as a "sink" account—is that the balance year by year varies, the consequence being that year by year one gets a figure that does not necessarily represent capital, but may, and usually does, include that class of item which we refer to as "revenue."

FIXED CAPITALS AND CURRENT ACCOUNTS.

Passing on to the next type of accounts—capital and current accounts. This seems to be a newer idea, and I believe I am voicing the general opinion in saying that it is becoming more favoured for various reasons. In this case we treat the capital account as recording actual amount introduced as capital and nothing more. So that at any time we are examining the books of a partnership under this method we know that the balance of the capital account, whatever it may be, represents the actual amount of capital introduced into the partnership—no adjustments and no revenue items. If the partners introduce initial capital and no more, the capital account, therefore, remains unchanged, whereas the current account records all the adjustments, no matter what they are, apart from capital adjustments. I hope I am not misleading you when I use that phrase "capital adjustments." I mean by capital adjustments those actual introductions or withdrawals of capital, apart from drawings. Thus the current account becomes, as it were, the "sink" account, recording all the revenue adjustments. The capital account remains unchanged, except when new capital is introduced or capital is withdrawn. In the balance-sheet there would thus appear for each partner two separate accounts, namely, one for capital and one for current account.

ADVANTAGES OF CURRENT ACCOUNTS.

Let me draw your attention to a few advantages of this second method of treatment. First, the fixed capitals are clearly distinguished from the undrawn profits. Very often, as most of you probably know, the partners do not draw the limit of their profits. Now, with the capital and drawings accounts, the balances automatically go into the capital and become capitalised; but they are still more or less revenue, but by treating fixed capitals as we have suggested, that balance of profits is always shown in current account, and the partners can easily see (which they cannot very well do after some years in the case of an ordinary capital account and drawings account) the amount of money they have left in the business.

A second advantage arises out of that famous decision in the case of *Garner* v. *Murray*, where, you will remember, according to the generally recognised interpretation, in a certain event, which is provided for by that case, all the partners have to bear the trading losses in the proportion in which they share profits and losses, but the losses occasioned by an insolvent partner are to be shared in the proportion of the solvent partner's capital. There, again, we have need to distinguish between capital and revenue.

Thirdly, a credit balance on current account may be withdrawn quite readily without any fear that the partner is withdrawing capital; in fact, from some points of view, there is much to be said for what we might call a "clean-up" at the end of each period, that is, for the partners to withdraw any credit balances on their current accounts. If the partners wish to introduce further capital, it is clearer to have a distinct transfer, debiting current account and crediting capital account. A current account affords a very definite method of doing that if it is so desired.

A fourth advantage, I think, arises under sect. 44 of the Partnership Act, 1890, where, you will remember, there is a distinction made between the capital introduced by partners and loans. For an undrawn balance on current account is really a loan to the firm. It is not capital. And whether you have it clearly distinguished in current account or hidden in your capital account, it is still theoretically a loan, and consequently, under sect. 44, you are entitled, in the event of winding up, to have priority in repayment of partners' loans over their capital—a by no means unimportant point on certain occasions.

A fifth advantage arises in connection with sect. 24 of the Partnership Act. You will remember that that section provides, in the absence of agreement, for interest to be allowed at 5 per cent. per annum on loans (not on capital), so that if there is no agreement a partner is safeguarding himself by having a current account on which he can claim interest as distinct from his capital.

Passing now to the recording of loans, I think we can dispense with that in a word. We can all recognise that, if a partner makes a loan to the business as distinct from introducing moneys as capital, that should be separately recorded and kept in a distinct account.

As regards recording interest on capital and interest chargeable on drawings—that is quite familiar, I feel sure, to most of you. One should at the end of the year, subject to what the partnership deed says, journalise the respective interest, debiting the interest account, which would be transferred, of course, to profit and loss account, and crediting the respective partners' accounts with their agreed interest on capital; and, conversely, we should debit the respective partners with the interest chargeable on drawings and credit the profit and loss account with the amount resulting therefrom.

I wonder if you appreciate the logic of that. One usually finds that, whereas interest on capital is as a rule allowed, it seems to be very seldom charged on drawings. In the first place, it seems to me to be quite businesslike and a fair proposition that if X invests money in a business he should—in addition to what that money earns in profits, which is due largely to his own efforts—receive a certain amount of interest prior to division of profits. I think, therefore, we see the logic of debiting the profit and loss account with a reasonable amount for interest and crediting the respective partners' accounts.

Look at the other side of the picture. You credit a partner with 5 per cent. on a certain amount—say £5,000—and during the course of the year he withdraws, say, £500. You are crediting him with interest on £5,000, but he has really got in the business only about £4,500, or, allowing for periodical drawings, perhaps a little more. Now, in order to be quite fair, it seems to me that we ought to charge a similar rate per cent. on drawings.

SALARIES AND DRAWINGS.

One should clearly distinguish—and no doubt you do so perfectly well here—between salaries and drawings. One has to consider salaries from the point of view of a "charge," and the reason for this is, that if that particular partner were not undertaking the work that he does, someone would have to be employed to do it. Therefore a partner's salary should be treated as an expense.

Now, as regards division of profits, whereas salaries are a charge against profits, we cannot say that drawings are, because they may be considered as moneys which have been drawn out of the business in anticipation of profits, and, until those profits are made, we may say—and I think with a great deal of logic—that the partner is getting some of his capital back. Hence we cannot consider drawings as a charge against profits, but they obviously reduce the partner's capital, and thus we do not pass them through the revenue account. Division of profits is, of course, subject to agreement, and I find that very often it is well to bear in mind that it need not necessarily be according to the proportion of capitals. One gets so accustomed to working exercises on those lines that I fear oftentimes we fall into the idea that it must of necessity be according to the amount which the individual partners have introduced. For example, consider two partners, X and Y. Supposing X has the money and Y the experience.

X with his money can do nothing; Y without money but with experience can do nothing. So that it will pay X to bring in Y, possibly without any capital whatever, to take advantage of his experience, in order to make the business a success, and Y may come in without a penny of capital, and yet it is quite conceivable he may ask for half the profits. We must therefore be on the look-out for that point in connection with the division of profits.

In treating the division of profits in a profit and loss account, I suggest that, strictly, we should not show the partners' division in the profit and loss account proper, but that we should carry down the balance of net profit and treat the division on the lines of an appropriation, as we should do in the case of limited companies. That appears to me to be the better and more logical way of showing the division of partners' profits in the final accounts.

PARTNERS' INCOME TAX.

Coming to what is by no means an unimportant section in the life of a partnership, namely, the adjustment of the accounts for income tax purposes, one has to be very clear as to the procedure. You will remember, from your reading of the Income Tax Acts and Rules, &c., that in this connection the precedent acting partner is made responsible by the Revenue for the return; and, further, that the firm is assessed, whereas the individual partners are expected to pay, bearing in mind, of course, that if the individual partners do not pay, then they may call upon the firm to do so. The point for examination students is usually, I think, the adjustment of the total figure of assessment, so as to get at the amount on which the individual partners are assessable.

The following simple example will perhaps make the matter clear:—

Adjustment of Profits for Income Tax purposes, 1923-24, Schedule D.

	1920.	1921.	1922.
Adjusted Profits for Income Tax	£2,000	£1,800	£1,900

Average, 1923-24, £1,900 (available for partners).

	Total	A	B	C
Partners' Salaries ..	£500	£250	£100	£150
Interest on Capital ..	200	100	50	50
Profit	1,200	600	300	300
	£1,900	£950	£450	£500

Supposing we consider an assessment for 1923-24. Under Schedule D, of course, assuming a continuous partnership, we shall take the three years 1920, 1921 and 1922. Let us assume that the adjusted profits for income tax for those three years are respectively £2,000, £1,800 and £1,900. Then working out the average for the three years we shall get the figure of £1,900 as being available for the partners—the average profit. Now we will assume there are three partners, A, B and C. If we tabulate them, we should just put A, B and C and keep one column for the total. Supposing these partners have salaries; we should set them down in our total. We will say £500 is the total amount of the salaries, and we analyse them against the respective partners. In this suppositious case, A has £250, B £100 and C £150. Then as regards interest on capital—we shall have to take that into account. We will suppose that the total of that is £200, and that the respective partners have £100, £50 and £50. Then the total profits available after those deductions would be £1,200, and dividing this up according to the agreed proportions, we get £600, £300 and £300. Then if we total these adjustments we arrive at our original figure of £1,900, and we get for each individual partner respectively £950, £450 and £500, which we might call the statutory income of those partners, from which, of course, they will deduct their earned income allowance and their personal allowances, such as they are entitled to recover. That rough form is necessary in order to get at the liability of the individual partners, and if I might make a suggestion for those intending to sit for the examinations, it is worth your while to give this special attention and to work a number of exercises, so that you may be familiar with such an arrangement.

DISSOLUTION OF PARTNERSHIP.

Coming to the third stage, which I likened to the death, but which more usually we refer to as the dissolution, this may happen in several ways. It may arise owing to the award of an arbitrator, or to the death, or bankruptcy, or incapacity (permanent) of a partner, or to serious conduct or breach of deed. It may arise in a case when a partner charges his share—it is optional in such a case—and lunacy would be a case for dissolution. Again, it would occur if the Court decided it were just and equitable. Then it might arise when the period of the partnership expired, or in a case of illegality. When dealing with dissolution on general terms one has to bear in mind sect. 44 of the Partnership Act, 1890, which sets out the rule for the distribution of assets. As regards losses, they have to be made good, first out of profits, next out of capital, and lastly out of the private estates of the individual partners. And as regards the distribution of assets, you will remember that they must be applied first to the paying of debts and liabilities of the firm to persons who are not partners; secondly, to paying each partner rateably what is due to him for advances and loans; and thirdly, paying each partner rateably what is due to him for capital, and if there is anything left (usually there is not), the ultimate residue is divided amongst the partners in the proportion in which the profits are divisible.

Now an important thing for accounting students is to deal with the accounts. I find usually that perhaps the simplest way of dealing with this subject is to think of a general case on which to base our ideas. Thus at a dissolution you have certain things to sell. Then get those realisable assets into one account, so that you know where you are. That suggests, then, that we open one account which can be headed "realisation of assets," to which we transfer all the saleable or realisable assets. Then you proceed to sell them, and as you sell them you debit your cash and credit your realisation of assets account. Thus you show what your assets are (which, of course, will be the book value) and on the credit side you show what you receive for them. Then you would simply transfer the balance of realisation account, debiting or crediting the respective partners' accounts in the proportion in which they share profits or losses. This would close your realisation account.

Now what have you to deal with? You pay the creditors and collect the book debts. If some are bad debts, then you would have to transfer the balance to the debit of realisation account, or transfer them direct to the partners' accounts, but preferably through the realisation account. You have, finally, a balance shown on the partners' capital accounts, which you proceed to close by a payment through cash.

Some students correctly apportion the balance of the realisation account in the way in which profit and losses are shared, and then they proceed to adopt the same method with regard to the balance of cash. That is a totally wrong idea. The way to close the cash account should be by looking at the balance of the respective partners' capital accounts and to pay them accordingly. It is similar to an ordinary business transaction and the effect of debiting or crediting the partners' capital accounts should close your cash account.

That is a simple case. Then we go on to cases which are not so simple; but I am anxious to allow time for discussion. I should very much like to refer to the *Garner* v. *Murray* decision and its effects on accounts, but I have already exceeded my 50 minutes. If we have time, perhaps the Chairman will permit me to say a few more words a little later.

Discussion.

THE CHAIRMAN: You have heard this interesting lecture. I should like to hear some points raised, and so would others, no doubt, on the subject that Mr. Lewis has been speaking to us. I do not quite agree with all that he has said, but I am not going to criticise adversely, for, of course, in practice lots of things that are taught in theory are never carried out. But perhaps we had now better hear the remarks and opinions of the meeting, and then I will probably say a few words at the end, if it is quite agreeable.

MR. D. CRICK: There is a point, Mr. Lewis, I would like to put to you—correct me if I am wrong. You say that on a dissolution of partnership, if there is a balance on current account it should be treated as a loan account, and in consequence it would have priority over capital in repayment.

But I would point out that if there is a deficit on realisation it would be dealt with in the profit and loss account, and it would reduce the balance on current account. I do not therefore see how any current account would remain to have priority over capital.

Mr. J. ROBINSON, Incorporated Accountant: There is only one point I would like to mention, and it is with regard to the realisation account. Our worthy Lecturer considers that the best method—there are all sorts of methods of doing this—is to debit the whole of the realisable assets to a realisation account, and credit the cash, and he says that will give the profit on realisation. But there are assets which are not realisable. For example, you may have a goodwill that would not go into your realisation account because it is not a saleable asset. In your examination test you get a balance-sheet and you are asked to realise it, the assets are being sold for so much. I prefer to state it thus: Open your realisation account and simply debit or credit the difference as you realise each asset. For instance, there is machinery and plant standing in your balance-sheet at £5,000, and you realise it for £4,500; debit the loss to realisation account and credit the cash to bank. The same with regard to your stock. If you have any unrealisable asset, such as goodwill, you debit it to realisation account as a loss. In that way it appears to work out quite simply. If your creditors stand in your balance-sheet at, say, £3,000, and you pay them off with a little discount, credit cash with whatever cash you pay out, and that, with a credit to profit and loss account, will balance the creditors. That is an easy method from an examination point of view, but I do not say that the other way is not also perfectly correct. Let me put it in another way. If you were realising a firm, the first thing you would do is to get a clean balance-sheet, a clean start on your dissolution, making a balance-sheet in the midst of the trouble. On realising your debtors you do not in actual practice debit one account; you take each item and you credit the debtor in the sales ledger account, and each debtor is dealt with separately. If there is a bad debt you transfer it to another account—say, a loss on debtors' account. In actual practice you have to make a clean start, so that as you receive the cash you debit cash and credit each individual debtor's account. If you had 40,000 debtors' accounts and you were clearing them up, you could not possibly put them into one account. Although I speak theoretically of putting the difference in the realisation account, I am trying to make the point that it is also the practical way of dealing with big masses of accounts. I do not, of course, say that the other way is wrong. Then I would like our Lecturer to give us his version of dividing up incomes, presuming it is Case 1, Schedule D, between the partners. Which method does he really advocate as in equity? I was connected with a firm for many years and we always divided partners' shares on the average. We took the average figures and divided the partners' shares on that. That always appeared to please our clients. Is it better to do it in that way, or to divide the statutory income for the year? Under Case 3 do you divide it according to how they take their profits in the year following? One partner, for instance, may in the last year have introduced £5,000 more capital. He is debited with interest on £5,000 more capital than he had in the years during which the average was made. I know what the law is, but we accountants often disregard the law. (Laughter.) I was wondering if our Lecturer could give us his views on that matter.

Mr. LEWIS: I do not know whether I have got the various points quite clearly, but perhaps the gentlemen concerned will correct me if I have misinterpreted them. I understood Mr. Crick to refer to the balance on current account which I said might be treated as loan account; and I understood him to take the point of view that, in the case of a dissolution, if there were any balances on current account, they would be simply treated as capital and not as a loan.

Mr. CRICK: My point was that, if there was a deficit on realisation, it should be debited against profit and loss account and it would extinguish the balance on current account.

Mr. LEWIS: Isn't it a fact that, in the first place, all ordinary debts have to be satisfied; and then, if there are any moneys over, it becomes a question of the priority of those partners who have money in the firm as loans? Supposing a partner has an ordinary loan, which he has definitely lent to the firm—would that take precedence over a credit balance, say, on another partner's current account? Is that the idea? Perhaps I have not got your point.

Mr. CRICK: The only case in which the question of priority arises is where there is a deficit on realisation. If there is a deficit on realisation, it will be divided as profits are divided and debited to the account, viz, current account, which you say is to have priority, thus bringing it down to nil.

Mr. LEWIS: In that case, ladies and gentlemen, I think Mr. Crick and I are in agreement. I do not quite see how the remarks I made clash with that point of view; in fact, I should think that would be my suggestion as regards dealing with such an account. Now, with reference to what Mr. Robinson said—he has put me a bit of a poser as regards income tax. I have been told by some people that at the end of a long life you begin to understand income tax, provided you are at it every day. (Laughter.) As I have not had that long life, I do not profess to be able to answer every problem that arises in income tax. In fact, I have found, in my short experience, that almost every new case I have to handle presents some new aspect that has to be considered. When you have made up your mind as to what that aspect is, and you go before the inspector, he usually has another to present to you; and if you disagree with him and decide to go to the chief inspector, he probably has another point of view to put to you; and if you are still dissatisfied and go to the commissioners, they often shut you up pretty quickly with another point of view. (Laughter.) However, if I understood Mr. Robinson's point correctly, it seems that if you have got sources of income which are assessable under different schedules—and in that simple case I took I assumed Schedule D—how would you treat them? Am I right, Mr. Robinson? (Mr. ROBINSON: Yes.) Well, candidly, I should wait until a particular case came along and consider it on its merits. I think most of you who have had anything to do with income tax have had somewhat similar experience to my own. Some time ago I had occasion to deal with a reverend gentleman's account in which there were such funny things as tithes—he was a vicar in the Church of England—and in trying to get him the best terms I could, I made it my business to see the representative of the chief inspector. Although there is absolutely no statutory authority, so far as I am aware, for the Revenue to allow rates on the vicarage, he was good enough to allow me for my client a certain amount for rates. Now, taking a case like this, we are more or less in the hands of the various inspectors and the Revenue, and the Revenue might allow the average in the case in question. I should certainly suggest that as far as possible you should take the average which tends to benefit one's clients, and work on that basis. An interesting point was raised as regards the balance on current account—I seem to have raised a sort of hornet's nest—as to whether that balance, assuming it is a credit balance, is equivalent to a loan. Well, I submit to you, in the first place, that if you work the current account on the lines suggested, you have moneys there which have been derived from Revenue. The next point to consider is that, if there are any moneys undrawn at the end of the year which have been derived from Revenue, do they automatically become capital, or do they become a sort of loan? I respectfully submit to you that, at any rate for a reasonable time, they should be treated as a loan, and I believe that the legal authorities, in a case of dissolution, would tend to uphold that view, although I am unable at the moment to quote an authority to support that view. I am more or less following the lines of logic. One has to admit that, if a partner allowed a credit balance to remain on his current account over a considerable number of years, there would be some justification for saying that by course of action he had recognised that balance as a part of his capital.

The CHAIRMAN: Only just a word with regard to what is capital, what are loans, and what is a current account—by which I presume our Lecturer means a drawing account. It depends entirely upon the construction of the partnership deed as to how moneys put into a business by partners are to be treated. In most deeds it states the exact amount of the capital, and there is generally a clause in the deed which says: "Any moneys advanced by a partner over and above the stated capital shall be treated as a loan and shall bear interest at a given rate per cent. per annum." Undrawn profits are capital, but it depends upon the terms of the deed,

again, as to whether those undrawn profits carry interest or not; because, after all, in the winding up of a company or the dissolution of a partnership, naturally the excess of assets over liabilities belong to the partners, which is capital, and may be partly made up of undrawn profits and partly of the original amount of money that has been put into the concern, and would be divisible according to the terms of the deed. The moneys advanced by way of loan as between the partners may be considered as a prior charge against the assets on a dissolution. But so far as the outside world is concerned that would not apply, because if there was a deficit then the moneys belonging to A and B, or to A, B and C (never mind the proportions in which they are interested) would have to be applied in discharging the liabilities of the firm. With regard to income tax, my view is this, that it is safer to take the statutory income and divide the amount of the liability for income tax under Schedule D proportionately between the partners in accordance with their share of the profits, rather than take, as Mr. Robinson said, the amount of the actual year's profits. I really got up to say how much I had enjoyed this discussion and to propose a very hearty vote of thanks to Mr. Lewis for his interesting lecture. It is a theme that is of very great interest; and it is helpful, because there are always points cropping up in partnership accounts, especially if you find, as our Lecturer said, that one partner comes at 10.30, goes out to lunch and comes back at 4.30, and then signs letters and goes home. If he does that, you may be quite certain that, sooner or later, there will be trouble between him and his partners—and that is where we come in. (Laughter.) The first thing I do when there is a dissolution, is to see what assets there are. Then I get out a statement of affairs or a balance-sheet and start to realise, placing the amounts that those assets realise to the respective accounts—book debts, investments, plant and machinery—and the difference (I think Mr. Robinson is with me there) I would transfer to a realisation account. When I have raised a "profits or losses on realisation" account, I should simply transfer the balance to the partners' accounts, according to the proportions to which they are entitled. By that means I narrow the accounts down to a very small compass until I have got on the one hand cash as a debtor and on the other hand capital accounts as creditors. I have great pleasure in proposing a very hearty vote of thanks to Mr. Lewis.

The vote of thanks was seconded by Mr. CASHMAN, and carried unanimously.

ENTERTAINMENTS DUTY.

Sect. 6 of the Finance Act, 1924, provides that as from June 2nd, 1924, Entertainments Duty within the meaning of the Finance (New Duties) Act, 1916, shall be charged at the rates set out below:—

Amount of Payment.				Rate of Duty.
Where the amount of the payment for admission, excluding the amount of the duty—				
exceeds 0s. 6d.	and does not exceed	0s. 7d. ..		0s. 1d.
,, 0s. 7d.	,,	,,	0s. 8d. ..	0s. 1½d.
,, 0s. 8d.	,,	,,	1s. 1d. ..	0s. 2d.
,, 1s. 1d.	,,	,,	1s. 3d. ..	0s. 3d.
,, 1s. 3d.	,,	,,	2s. 0d. ..	0s. 4d.
,, 2s. 0d.	,,	,,	3s. 0d. ..	0s. 6d.
,, 3s. 0d.	,,	,,	5s. 0d. ..	0s. 9d.
,, 5s. 0d.	,,	,,	7s. 6d. ..	1s. 0d.
,, 7s. 6d.	,,	,,	10s. 6d. ..	1s. 6d.
,, 10s. 6d.	,,	,,	15s. 0d. ..	2s. 0d.
,, 15s. 0d. ..			.. ..	2s. 0d. for the first 15s., and 6d. for every 5s. or part of 5s. over 15s.

Professional Appointment.

Mr. E. B. Jones, A.S.A.A., A.I.M.T.A., Deputy Borough Treasurer of Wigan, has been appointed Borough Accountant and Superintendent Assistant Overseer of Chorley.

Correspondence.

CROWN'S PRIORITY IN BANKRUPTCY AND WINDING UP.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—The article in your issue for July, 1924, dealing with the Crown's priority in bankruptcy and winding up contains the following sentence:—

> "We believe we are correct in saying that the practice of the Department is to claim that the election" (as to the assessment in respect of which priority is to be claimed where more than one year's tax is due and unpaid) "lies with the Crown . . ."

Arising out of this statement, and the various alternative hypotheses as to the correct construction of the (apparently inconsistent) provisions of the Companies Act, the Bankruptcy Act, and the Income Tax Act, I would call your attention to the case of *E. W. Campbell* (deceased) (*Commercial Bank of Scotland, Limited*, v. *Campbell*) in the High Court of Justice (Chancery Division), January 12th, 1923.

The fact that the judgment in this case is closely concerned with the intricate facts and circumstances of the particular case, and does not very clearly illustrate any general principle, is probably responsible for the small degree of attention that it seems to have attracted in the profession, but it certainly goes to show that the claim to elect in the case under review is considered valid by the Commissioners, and that, at all events in certain circumstances, it is likely to be upheld by the Court.

The case deals with an insolvent estate in which the deceased, Eric Campbell, had been tenant-for-life under his father's will of a share in his father's estate. The trustee acting under that will had advanced during Eric's lifetime a sum to be applied in settlement of certain of his debts including a liability to super tax extending over four years, up to April 5th, 1920. All the specified debts were paid except the super tax, and upon the death of Eric Campbell (on October 4th, 1920) there remained on deposit a sum sufficient to cover the super tax originally due at the date of the advance, but not the whole sum due at the date of his death. The question then arose as to whether the money on deposit was part of Eric Campbell's settled legacy, or formed part of his estate at the date of his death, or was the property of the Commissioners of Inland Revenue. Mr. Justice Russell decided that the sum had ceased to be part of the settled legacy as an effect of the exercise of the power of advancement. The sum on deposit was, therefore, agreed by the parties interested to be paid to the Commissioners, and was so ordered to be paid by the learned Judge in respect of super tax *up to April 5th, 1920.*

Now, before handing over the money the solicitors on behalf of the administratrix expressly appropriated it to the super tax for the year ending April 5th, 1920, the balance remaining over to be taken to be in respect of super tax in the administration suit, but the present case was brought to decide whether or not such appropriation was in order. Mr. Justice Romer held that the declaration originally made was that the sum was to be treated as a payment of the sums owing for super tax for the three years to April, 1919, and the balance towards super tax for the year to April, 1920. *As regards the balance of such super tax, the Commissioners were entitled to preference, and for 1920-21 they ranked as ordinary creditors.*

It will be observed that the decision cannot be taken as a decision of a general principle, since the order as already made and now construed was a factor of prime importance. Certain extracts from the judgment, however, are of distinct importance, and although I hesitate to remove these from their context, it is obviously impossible here to quote the judgment *in extenso.* This is, however, to be found in *The Accountant* (Tax Cases No. 44, 1923, page 59).

The more important extracts follow:—

> (1) "The Commissioners . . . claim . . . that they are entitled to appropriate the sum so paid in respect of any of those years that they think fit."

(2) "Now it appears that under sect. 33 of the Bankruptcy Act, 1914, where there is an insolvent estate being administered by the Court, the Commissioners of Inland Revenue are entitled to claim priority in respect of income tax, which would include super tax in respect of any one year ending on April 5th, 1920 (*sic*), before the death of the testator. In this particular case the year chosen by the Commissioners for their claim of preference is, and obviously would be, the year ending April 5th, 1920, because the claim for that year was much in excess of the other years . . ."

(3) "Now it is perfectly clear . . . that he (Mr. Justice Russell) was under the impression that the claim of the Inland Revenue that this money was theirs was being given effect to. If their claim was given effect to they . . . would appropriate it as they thought fit . . . and prove for the balance."

(4) ". . . a question arises as to whether the administratrix had any such right to make any appropriation at all. In my opinion she had not. She could only have had a right of appropriating, it seems to me, if the money had formed part of the estate of Eric." (N.B.—This particular point appears, therefore, to remain undecided.)

(5) "If he" (the inspector) "claims preference for one year, and it turns out that he has claimed preference for a year in respect of which he has been paid *aliunde*, I should have thought he would have a right of preference in the next biggest year."

These extracts are, I think, sufficient to show at all events that the Commissioners of Inland Revenue claim a right of election as regards the year to be treated as preferential in bankruptcy or liquidation. They further claim a right of election as regards appropriation of payment in the circumstances dealt with in your article of this month; and it seems clear that these claims are likely to be upheld in law. Whether payment by the Crown debtor with a prior appropriation would be sufficient to defeat this does not appear to be satisfactorily settled.

If you consider these deductions unjustified I should be very interested to hear your views on the subject, as the effects of a really clear understanding on the points involved might be very far reaching.

Yours faithfully,

London, E.C. ROBERT A. HARTING.

SUGGESTED FORM OF CAPITAL LEVY.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—I should value your opinion on the following scheme for the raising of revenue.

Shortly, it is as follows: "A levy by way of a percentage on capital employed in a business," for instance, a company with a paid up capital of £5,000 should raise their capital by 2 per cent. and allot that 2 per cent. in shares to the Government, who would take only the dividend on that percentage of shares in the same way as an ordinary shareholder, but would have no right to vote at any meeting; neither would the shares be transferable, and the Government would have no right of interfering in management. And further, in the case of a liquidation, bankruptcy or closing up, these shares would revert to the company or firm for the benefit of the original shareholders or proprietors or liquidators for the benefit of the firm's creditors.

Attached are a few suggestions, recommendations and examples to explain more fully the scheme and its operation.

You will please note that the examples are based roughly on the revenue from some 2,260 public companies (there are, I believe, 90,000 companies) with a capital paid up of £50,000 and upwards and quoted on the Stock Exchange. I find it practically impossible to obtain the like information as to private companies and firms, but the amount must be enormous. The scale of percentages are purposely kept low as I do not wish to exaggerate my estimate for revenue.

It would be quite a simple matter to bring in debenture issues; see my example set out in my notes attached.

This scheme is not a capital levy inasmuch as the capital levy takes away the capital; my scheme only takes an interest in the business, and is in effect a co-partnership scheme between the business and the Government.

As the scale of percentages shows, the heavily capitalised companies appear to have a fairly large sum to pay, but spread over the capital the individual small shareholder is not badly hit. Dividends in the examples are the average dividends actually paid.

The contribution from even the largest company is not sufficient to cause any depreciation in the value of the shares.

I feel confident that considerably more than 50 millions would be received.

Yours faithfully,

16-17, Devonshire Square, London, E.C. ST. JOHN BENNETT.

THE CAPITAL CONTRIBUTING ACT, 1924.

An Act to provide Moneys for General Utility Purposes.

NOTES.—The scheme proposes a levy by way of a percentage on capital employed in a business.

All firms and companies (public and private) are included.

A sliding scale of contributions as hereunder:—

	Up to and not exceeding £5,000 ..		Nil	
Above	£5,000	,, ,, 20,000 ..	2	per cent.
,,	20,000	,, ,, 50,000 ..	3	,,
,,	50,000	,, ,, 100,000 ..	4	,,
,,	100,000	,, ,, 200,000 ..	5	,,
,,	200,000	,, ,, 500,000 ..	6	,,
,,	500,000	,, ,, 1,000,000 ..	7	,,
,,	1,000,000 and upwards		8	,,

No rights other than to dividend shall attach to the contributions.

Where an increase of capital is necessary no duty on such increase shall be payable.

The examples given below only deal with 2,260 public companies with only £50,000 nominal capital and quoted on the Stock Exchange.

In case of partly paid up capital the Government shares would only be paid up in proportion.

Tax would be deducted from all dividends.

The loss to each shareholder would thereby be reduced as tax would come off net dividend.

Example: Paid up capital, £50,000; profit, £2,500 =5 per cent. Person holding 1,000 shares receives £50 dividend, less tax, 4s. 6d., net £38 15s. 0d.

Under this scheme the capital becomes £51,500, and this shareholder receives £48 10s. 9d., less tax, 4s. 6d., net £37 12s. 6d., thereby contributing only £1 2s. 6d.

The Act would apply to all companies to which corporation duty applied.

The scheme is more in the nature of a co-partnership between the Government and the business house.

The contribution from even the largest company is not sufficient to cause an appreciable market depreciation in the shares.

I am of opinion that unearned investments should not produce more than 15 per cent. at the outside, so that the big companies paying dividends in excess of this sum are doing so at the expense both of the public and their own workers.

The scale of percentages could be raised or lowered annually according to the requirements of revenue.

Capital of firms, as distinct from limited companies, to be ascertained as for excess profits duty.

I am not keen on including present issues of debentures in the scheme, but all new debentures to contribute, but if existing debentures are to be included, then the proportion of capital in which the Government are interested to be the rate applicable to the ordinary shares divided by the ratio that the ordinary capital bears to the debenture issue.

Example:—	Rate.	Govmt. holding.	Percentages varying proportionate to kinds of Capital.
Ordinary Issue, 1,000,000	6%	70,000	7%
Debenture Issue, 500,000	4%	17,500	3½%

Preference shares and debentures could be made to contribute as under:—

First find the amount to be paid on the original allotment, then divide this by the original allotment plus the Government proportion, thereby making the preference and debenture holder pay his proportion, and it would not be paid at the expense of the ordinary shareholder.

It might be argued that both preference and debentures were issued at a fixed rate of percentage, but per contra they are both subject to tax at whatever rate is ruling at the time.

Annual returns of companies to state the rate of dividend paid. In the case of firms the net profit to be divided as dividend on capital whether paid to proprietors or not, and the proportion due to the Government paid over.

Collection of these contributions could be made by the inspector of taxes as in case of Schedule D.

Contribution is too small to encourage fraud.

Anything done to defeat the Inland Revenue under this scheme is also against the interests of the shareholders themselves.

Contributions from each shareholder of small holding is infinitesimal, and even the big shareholder is not seriously hurt.

Scheme would discourage large reserves, that is, if the company wanted to maintain big dividends; for example, see banks large dividend and increases to reserves—they could still pay large dividends but not put so much to reserves.

This scheme would produce sufficient revenue to allow for a large reduction in the duty on tea and sugar, and allow for the raising of the limit of allowances for married men to £400 and single £250, and generally to benefit the man with an income of £1,000 and under.

Exemption.—All limited companies and firms with less than £5,000 capital should be exempt.

INCOME TAX WHERE RENT EXCEEDS SCHEDULE A ASSESSMENT.

To the Editors *Incorporated Accountants' Journal.*

SIRS,—Perhaps you could enlighten me as to the correct manner of settling the following difference which has arisen between a landlord and tenant of my acquaintance. The point raised is regarding the apportionment of Schedule A tax when a tenant is in beneficial occupation of premises at a figure considerably below the gross Schedule A assessment.

The tenant takes the view he can deduct tax from the landlord to the extent of "current rate on his rental," as stated in the Income Tax Act.

The landlord states in doing so he is deriving the benefit of his (the landlord's) allowance for repairs, and contends a fair method would be to regard the rental as gross annual value, then deduct proportionate allowance for repairs, and deduct tax from the landlord on the net figure only.

Yours faithfully,

THOMAS BANVILLE.

[The tenant can deduct the tax actually paid by him up to an amount not exceeding the tax on the rent actually paid by him. Anything beyond that figure the tenant must bear personally.—EDS., *I.A.J.*]

OLD AGE PENSIONS ACT, 1924.

An Act to amend paragraph (3) of sect. 2 of the Old Age Pensions Act, 1908.—August 7th, 1924.

AMENDMENT OF STATUTORY CONDITION AS TO MEANS.

1.—Paragraph (3) of sect. 2 of the Old Age Pensions Act, 1908, as amended by sub-sect. (1) of sect. 2 of the Old Age Pensions Act, 1919 (which contains the statutory condition as to means), shall for all purposes have effect as though after the words "calculated under this Act" there were inserted the words "after deducting therefrom such part, if any, thereof, but not exceeding in any case £39, as is derived from any source other than earnings."

SHORT TITLE AND EXTENT.

2.—(1) This Act may be cited as the Old Age Pensions Act, 1924; and the Old Age Pensions Acts, 1908 to 1919, and this Act may be cited together as the Old Age Pensions Acts, 1908 to 1924.

(2) This Act shall not extend to Northern Ireland.

District Society of Incorporated Accountants.

SOUTH WALES AND MONMOUTHSHIRE.

Annual Report.

The following are extracts from the 29th annual report for the year ended March 31st, 1924:—

It is with the deepest possible regret that we record the death of Major Gwilym Arnold Evans, J.P., Mountain Ash, which took place on Wednesday, July 9th. Major Evans was President of the District Society in 1904 and 1907, and last year was elected Vice-President of the Parent Society. He always took the keenest possible interest in the work of the District Society, and especially in the welfare of the younger members, and his loss will be felt not only by the District Society but by the whole of the profession throughout the country.

The rules of the District Society which had been under consideration for some time, having been approved by the Parent Society, were submitted to and adopted by a specially convened meeting held prior to the annual meeting.

In accordance with Rule 5 of the new rules, the whole of the existing Committee retired and a new Committee was elected. This consists of the following past Presidents who, in accordance with Rule 5, had signified their willingness to serve on the Committee, viz:—Mr. John Allcock, F.S.A.A. (Cardiff), Mr. W. J. Bennett, F.S.A.A. (Cardiff), Colonel J. J. David (Cardiff), Major G. A. Evans (Mountain Ash), Mr. A. W. Horton, F.S.A.A. (Cardiff), Mr. W. Picton Jones, F.S.A.A. (Swansea), Mr. R. Leyshon, F.S.A.A. (Cardiff).

The number of members to be elected for Cardiff, Newport and District having been fixed at eight, the following members were unanimously elected:—Mr. F. J. Alban, F.S.A.A. (Cardiff), Mr. R. Wilson Bartlett, F.S.A.A. (Newport), Mr. J. P. Griffiths, F.S.A.A. (Cardiff), Mr. G. E. S. Heybyrne, F.S.A.A. (Newport), Mr. Norman E. Lamb, F.S.A.A. (Newport), Mr. E. Mills, F.S.A.A. (Newport), Mr. W. J. Pallot, F.S.A.A. (Cardiff), Mr. L. R. Williams, F.S.A.A. (Cardiff).

The election of the three members for Swansea and District was left to a meeting of the Swansea members, who subsequently nominated the following members who were unanimously elected on the Committee:—Mr. W. H. Ashmole, F.S.A.A. (Swansea), Mr. G. Brinley Bowen, F.S.A.A. (Swansea), Mr. H. Edwards, F.S.A.A. (Swansea).

The following members were also elected on the Committee as representatives of the Student Section for their respective districts:—Mr. P. A. Hayes, A.S.A.A. (Cardiff), Mr. C. T. Stephens, A.S.A.A. (Newport), Mr. Thomas Mills, F.S.A.A. (Swansea).

AUTUMNAL CONFERENCE.

The principal activity of the District Society during the current year was the carrying out of the arrangements for the Autumnal Conference which was held in Cardiff on October 3rd, 4th, 5th and 6th, 1923.

The Council of the Parent Society has forwarded to the President and Honorary Secretary of the District Society votes of thanks inscribed on vellum for the hospitality afforded and the arrangements made.

The District Society showed their appreciation of the efforts of the President and the Honorary Secretary and his staff in connection with the Conference, by entertaining them to supper on November 20th, when presentations were made to both Mr. and Mrs. Allcock and Mr. and Mrs. Percy Walker, and also to Mr. T. N. T. David, who had so ably assisted the honorary secretary in carrying out the details of the arrangements.

PROGRAMME OF LECTURES.

The Programme of Lectures was necessarily short owing to the amount of time which had been taken up in connection with the Conference. The following lectures, however, were arranged but the attendance of the members was most disappointing. It is hoped, however, that during the coming session by combining more effectively with the student sections that more satisfactory results will be obtained:—

1923.

Nov. 2nd. "The Draft of the New Rating and Valuation Bill," by Mr. John Allcock, F.S.A.A., City Treasurer and Controller, Cardiff; at Cardiff.

Joint meeting with the South Wales and Monmouthshire Branch of the Institute of Municipal Treasurers and Accountants (Incorporated).

1924.
Jan. 10th. "The General Principles of Factory Costing," by Mr. Percy H. Walker, F.S.A.A.; at Cardiff.
Jan. 31st. "Economics," by Mr. A. E. Pugh, A.S.A.A., F.R.Econ.S.; at Cardiff.
Feb. 14th. "The Law relating to Trustees," by Mr. Edward Davies, Barrister-at-Law; at Cardiff.
Mar. 31st. "The Comparison of Municipal and Commercial Accounts," by Mr. Norman E. Lamb, F.S.A.A.; at Newport.
Joint meeting with the South Wales and Monmouthshire Branch of the Institute of Municipal Treasurers and Accountants (Incorporated). (This lecture has been postponed until next session.)

ANNUAL MEETING OF THE PARENT SOCIETY.

A number of members of the District Society, including the Hon. Secretary, attended the Annual Meeting of the Parent Society in London in May, and were accorded a hearty welcome.

The Hon. Secretary attended the Conference of Representatives of District Societies the following day, when various matters of interest to the District Societies were discussed and dealt with.

TRAINING OF DEMOBILISED OFFICERS AND MEN.

The District Society continues to be represented on the Selective Committees and Appointment Panels of the Ministry of Labour, both of which bodies are doing good work in the placing of demobilised officers and men with members of the profession.

BENEVOLENT FUND.

Mr. Richard Leyshon still represents the District Society as Vice-President of the Benevolent Fund, and a special appeal is being made by the retiring President, Mr. John Allcock, for support by the local members.

CARDIFF AND DISTRICT STUDENTS' SECTION.

The following lectures were given during the session:—

1923.
Oct. 19th. Opening Address, by Mr. R. Leyshon, F.S.A.A.
Nov. 29th. Mock Appeal before the Income Tax Commissioners.
Dec. 14th. "Capital Levy," by Mr. W. R. King.

1924.
Jan. 4th. "The Study of the Balance-sheet of a Limited Company," by Mr. N. E. Kirby, A.S.A.A.
Feb. 22nd. "Law of Corporation," by Mr. W. Matabele Davies, B.A., LL.B.
Mar. 7th. "Reserves and their Investment," by Mr. A. P. Horton, A.S.A.A.

NEWPORT STUDENTS' SECTION.

The following meetings were held during the session:—

1923.
Aug. 24th. Annual Meeting.

1924.
Jan. 18th. Short Papers—
"Some Notes on Bills of Exchange," by Mr. W. Thomas.
"The Essential Elements of Partnership," by Mr. E. L. Pritchard.
"The Bank Rate and its effect on the Money Market," by Mr. A. C. Fisher.
Feb. 8th. "Economics," by Mr. A. E. Pugh, A.S.A.A., F.R.Econ.S.
Feb. 29th. Short Papers—
"Misrepresentation in a Prospectus," by Mr. F. J. Notley, A.S.A.A.
"Audit of Local Authorities' Accounts," by Mr. J. D. R. Jones, A.S.A.A.
"The Protection afforded to Collecting Bankers by the Bills of Exchange Act, 1882," by Mr. W. Thomas.
"Prevention of Fraud in the Payment of Wages," by Mr. E. L. Pritchard.

1924.
April 11th. "Important Points in Income Tax and Corporation Profits Tax," by Mr. D. Davies, A.S.A.A. (H.M. Inspector of Taxes).
May 2nd. Informal chat with May Examination Candidates, by Mr. C. T. Stephens, A.S.A.A., and Mr. J. D. R. Jones, A.S.A.A.

In addition to papers read by members of the section, lectures were given by Mr. A. E. Pugh, A.S.A.A., F.R.Econ.S., and Mr. D. Davies, A.S.A.A., H.M. Inspector of Taxes, Cardiff. Both of these meetings were exceptionally well attended, there being a record attendance at the last meeting, and the Newport students are greatly indebted to these gentlemen, not only for their kindness, but also for their highly interesting and informative discourses.

SWANSEA STUDENTS' SECTION.

The following programme for the session was arranged:—

1923.
Oct. 10th. (*a*) Presidential Address and (*b*) Lecture on "Goodwill," by the President.
Oct. 24th. Questions: Law Subjects.
Nov. 8th. Lecture: "Economics," by Mr. P. S. Thomas, M.A.
Nov. 21st. Short Papers on Income Tax—
"Specific Cause," by Mr. H. Edwards, F.S.A.A.
"Section 34," by Mr. W. H. Charles, A.S.A.A.
"Wear and Tear," by Mr. T. Mills, F.S.A.A.
"Building Societies Tax," by Mr. A. W. Sleeman, A.S.A.A.
Dec. 5th. Questions: Accountancy Subjects.
Dec. 19th. Lecture: "Some Special Features of Accounts and Audit of Municipal Authorities," by Mr. R. A. Wetherall, F.S.A.A.

1924.
Jan. 9th. Lecture: Statistics:—"The Theory and Methods of Correlation," by Mr. H. J. Thomas, M.Com.(Birmingham).
Jan. 23rd. Lecture: "Company Law," by Mr. Arthur Jones, B.Sc.(Econ).
Feb. 6th. Questions: Auditing and General Commercial Knowledge.
Feb. 20th. Lecture: "Executorship Accounts," by Mr. G. Brinley Bowen, F.S.A.A.
Mar. 5th. Prize Essays read and discussed.
Mar. 19th. Questions.
April 2nd. Lecture: "Bankruptcy," by Mr. Frank Davies, Barrister-at-Law.

In order to stimulate the expression of views by the younger members of the section, two competitions were decided upon (*a*) for an essay on a subject to be selected, and (*b*) for the best contributions to discussions throughout the session, and the subject chosen was "Reserves, Reserve Funds and Surplus Assets." Three prizes were offered, viz, £1 11s. 6d., £1 1s. and 10s. 6d. Many excellent papers were submitted, and the prizes were awarded as follows:—

First prize, Mr. R. A. Tucker (Ashmole, Edwards & Goskar).

Second prize, Mr. H. Atkins (Borough Treasurer's Office, Swansea).

Third prize, Mr. L. Chegwidden (Ashmole, Edwards and Goskar), Mr. D. J. Charles (W. H. Charles, Llanelly).

In competition (*b*) one prize of £1 1s. was offered.

Mr. D. J. Charles (W. H. Charles, Llanelly), was placed as the prize winner, with Mr. J. T. Nicholas (Borough Treasurer's Office, Llanelly) and Mr. G. A. Watkins (Borough Treasurer's Office, Swansea), second and third respectively.

A dinner was held on April 11th at Thomas' Cafe, Swansea, at which 50 members were present. The President was supported by the Mayor of Swansea (Councillor G. H. Colwill) and Councillor W. L. Bevan, Mr. H. J. Thomas, M.Com., Mr. P. S. Thomas, M.A., Mr. Arthur Jones, B.Sc., Mr. G. Brinley Bowen, F.S.A.A., Mr. R. A. Wetherall, F.S.A.A., &c.

The Mayor presented the prizes to the successful students in the competitions.

Reviews.

Tolley's Income Tax Chart. *Ninth Edition, 1924-25. London: Waterlow & Sons, Limited, London Wall and Birchin Lane. (Price 3s., post free, or without Free State Supplement 2s. 8d., post free.)*

This useful Chart gives as usual in a very condensed form a large amount of information with regard to Income Tax, Super Tax and Corporation Profits Tax. On this occasion a separate supplement has been issued dealing with Income Tax and Super Tax in the Irish Free State, together with the provisions as to relief from double taxation. The Chart incorporates the provisions of the Finance Act, 1924, and will be found reliable.

Practical Directorship. *By H. E. Colesworthy, A.S.A.A., and Sidney T. Morris, A.S.A.A. London; Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (240 pp. Price 7s. 6d. net.)*

This work differs from the usual form of directors' handbooks, the authors' aim being to set out more particularly the commercial duties as distinguished from the statutory duties of a director, and to provide a guide in matters of finance, administration and control. The book deals more specifically with the direction of manufacturing companies, although it is also applicable for the most part to other concerns. Commencing with a description of the qualities of a director, an outline is given of company accounting and the method of controlling working capital. The idea and object of an internal audit is explained, and also the method of control of branches. A separate part of the book is devoted to the control of production and sales organisation, and the concluding part to the annual accounts, allocation of profits, and proceedings at annual meetings, &c. The book is well worthy of perusal by anyone concerned with directorship matters.

Municipal Accounting Systems. *By Stanley Whitehead, A.S.A.A. London: Sir Isaac Pitman & Sons, Limited, Parker Street, Kingsway, W.C. (134 pp. Price 5s. net.)*

So many books have been published on the subject of Municipal Accounts that it is not easy to add anything which is really new. Mr. Whitehead's book is intended mainly for the use of examination students, and gives in a very concise form the general organisation and working of the Finance Department of a Municipal Corporation, including Revenue Accounts and Balance-sheets, Capital and Loan Accounts, the control of wages, Filing and Indexing, Stores and Cost Records, and generally the method of recording and bringing the whole of the operations into the final abstract.

Scottish Notes.

(FROM OUR CORRESPONDENT.)

An Internal Municipal Audit Question.

An internal municipal audit system has been in force in Edinburgh and Glasgow for some years, and more recently the Corporation of Dundee decided to institute such a system of internal check. The efficiency of the system in Edinburgh and Glasgow is well known, and its advantages have never been disputed. Last month the town councillors of Greenock solemnly discussed this question, and delayed adopting a proposal for an internal audit. There appeared to be considerable confusion of thought on the part both of those who favoured and those who objected to the proposal. There seemed to be an idea that the duties would in some measure supersede those of the official auditor or relieve him of some of his responsibility, and that it might prove a suitable job for a "young Chartered Accountant." As a matter of common knowledge in municipal accountancy, there are now no facilities given for the training of Scottish Chartered Accountants in municipal offices, while on the other hand most of the internal audit staffs in Scottish municipal accountancy are Incorporated Accountants, or are training for that qualification under the special service bye-laws which require nine years service in lieu of the usual apprenticeship of five years.

Differences in Scots and English Law.

We recently referred to the publication of lectures by Mr. G. W. Wilton, K.C., on differences in Company Law in England and Scotland. We observe with pleasure that the series of lectures by Mr. H. Burn-Murdoch, Advocate to the Glasgow Institute of Accountants and Actuaries, on the differences in Scots and English Law have been published under the title of "Notes on English Law in differing from Scots Law: with special reference to Commercial Law and Accountancy Practice." This should prove a particularly useful book to students of the Society in Scotland who take Scots Law. The branches of law dealt with in the volume are not only legal procedure and nomenclature, but Contract law, Partnership, Mortgage Securities, Company Law and Liquidation, Bankruptcy, Trusts, Guarantee, Bills of Exchange, the Law of Succession, and others. Not only is the law in these subjects more or less different in certain parts, but the accountancy practice is also different not only in method but in terms. Mr. Burn-Murdoch explains how since the Union in 1707 a gradual assimilation of the laws of England and Scotland has been going on, while at the same time certain differences in law and practice have been allowed to remain. Instances may be mentioned in the Scottish Bankruptcy Act, the law of trusts, succession, company liquidation, &c. These differences, which occasionally emerge in the accountancy papers of the Society's examinations, are pitfalls for the Scottish candidate, and this little book should be exceedingly helpful as a guide to candidates in dealing with such questions.

Notes on Legal Cases.

COMPANY LAW.

Re Anglo-Spanish Tartar Refineries.

Inadvertent omission to Advertise Meeting.

Where there was an inadvertent omission to advertise a scheme of arrangement (as directed by the Court) under sect. 120 of the Companies (Consolidation) Act, 1908, but it was proved that 30 out of 31 shareholders of the company had received the notices, the Court held that the meetings had in substance been held in manner prescribed, and did not insist on further meetings being called.

(Ch.; (1924) 68 S.J., 738.)

Anglo-Baltic and Mediterranean Bank v. Barker.

Judgment against Company which goes into Liquidation.

When a judgment has been recovered against a company which subsequently goes into liquidation, execution will be stayed in the absence of reasons to the contrary.

(C.A.; (1924) 59 L.J.N., 404.)

EXECUTORSHIP LAW, AND TRUSTS.

Smith's Trustees v. Smith.

Meaning of "Free of all Income Tax, General Duties (if any) and all other deductions."

A testator directed his trustees to pay to his wife during all the days of her life an annuity of £2,000, free of all income tax, general duties (if any) and all other deductions. Her total income exceeded £2,000 and was accordingly liable to super tax.

It was held that the trustees were bound to relieve the widow of her liability to super tax in respect of the annuity.

(C.S.; (1924) 61 S.L.R., 364.)

Re Clout & Frewen's Contract.

Disclaimer of Trustee who had not acted for 30 years.

A trustee and executor survived the testator for nearly 30 years without proving, acting or applying for a legacy given to him as such. On a sale of the real estate the purchaser objected that the trustee had not disclaimed.

It was held that there was sufficient evidence of disclaimer by conduct and the objection must be overruled.

(Ch.; (1924) 68 S.J., 738.)

Dunn's Trustees v. Dunn.

Settled Legacy "Free of Legacy or other Duty."

A testator who died in 1919 by his trust disposition and settlement dated June 14th, 1911, left a number of legacies "given free of legacy or other duty" and "payable without interest as soon after my death as the trustees in their sole discretion may find convenient." Among these legacies was one of £12,000 to his brother in liferent (a rent received for a term of life), and to the latter's children in fee. The residue of the estate was to be divided among such charitable institutions as the trustees in their discretion should select.

It was held that the estate duty falling to be paid under sect. 14 of the Finance Act, 1914, on the liferented sum of £12,000 upon the death of the liferenter was a charge against the residue of the trust estate, and did not fall to be paid out of the corpus of the legacy.

(C.S.; (1924) 61 S.L.R., 411.)

INSOLVENCY.

Ellis & Co.'s Trustee v. Dixon-Johnson.

Shares pledged with Firm as cover and wrongfully Sold unknown to Client.

The Court of Appeal in dismissing an appeal from P. O. Lawrence (J.) (reported in *Incorporated Accountants' Journal*, April, 1924, p. 199) held that where shares were deposited by their owner as cover for a carry-over account with a firm which became bankrupt after selling the shares without the owner's knowledge and the bankrupts' trustee failed to return the shares but obtained a certificate of a final account between the owner and the firm—

(1) The trustee must return the shares before sueing for any balance due on the account;

(2) That damages due to the owner for failure to return the shares must be fixed at the middle price of the shares on the day previous to the signing of the certificate.

(C.A.; (1924) 59 L.J.N., 370.)

Mayson v. Clouet.

Right of Representative of Purchaser of Land to recover Instalments paid on Bankruptcy.

Where a purchaser, having paid instalments of purchase money under a contract for the sale of land, commits a breach of the contract and subsequently becomes bankrupt, his representative is entitled to recover the instalments paid from the vendor who has declared the contract at an end by reason of the breach.

(A.C.; (1924) 59 L.J.N., 481.)

REVENUE.

Brighton College v. Marriott.

Surplus Funds of College carried on by Company.

A company was formed to carry on an educational college, and by the memorandum of association the income and property were to be applied solely to the objects of the college and no bonus or dividend was to be paid to any member. The surplus sums received from school fees were applied to reducing mortgage indebtedness incurred in acquiring college property and to extensions and improvements.

It was held that the company was not carrying on a trade and was not assessable to income tax on the surplus of fees over current expenses.

(K.B.; (1924) 40 T.L.R., 763.)

Baxendale v. Murphy.

Remuneration out of Income from Trust Funds.

Where a settlement provides for the payment of an annual sum to a trustee for his services, out of the income arising from the trust funds in his hands, the remuneration is an "annual payment payable wholly out of profits or gains brought into charge to tax" within the meaning of Rule 19 of the All Schedules Rules of the Income Tax Act, 1918, and the trustee is not liable to direct assessment under Schedule D, Case 11.

(K.B.; (1924) 59 L.J.N., 438.)

Biddle v. Morris.

Annual Value and Increase by Allowance for Repairs.

Where a landlord is allowed under the Increase of Rent, &c., Act, 1920, sect. 2 (1) (*d*), to increase the standard rent on the ground that he is responsible for repairs, that increase must be treated as part of the rent and not as an indemnity against his liability to repairs; that increase is a part of the annual value of the property; and therefore such increase is assessable to income tax under Schedule A.

(K.B.; (1924) 59 L.J.N., 441.)

Atherton v. British Insulated and Helsby Cables, Limited.

Nucleus of Pension Scheme provided by Employers.

The respondents inaugurated for their employees a pension scheme to which both the respondents and their employees were to contribute a percentage of the wages, and, for the purpose of providing the capital sum necessary in order that past years of service of the then existing staff should rank for pension, the respondents in addition contributed a sum of £31,784 to form a nucleus.

It was held that in calculating the profits of the respondents under Schedule D of the Income Tax Act, 1918, the respondents were entitled to deduct this sum of £31,784 in the year in which the contribution was made.

(K.B.; (1924) 40 T.L.R., 761.)

Attorney-General v. Valentia.

Entertainments Duty payable where Club Members have right to attend Matches.

It was held by Rowlatt, J., that entertainments duty was chargeable on a proportion of the subscriptions and entrance fees of the members of the Hurlingham Club, who in addition to certain club privileges had the right to attend polo matches and tennis and other tournaments provided by the club.

(K.B.; (1924) 40 T.L.R., 626.)

Attorney-General v. Aramayo and Others.

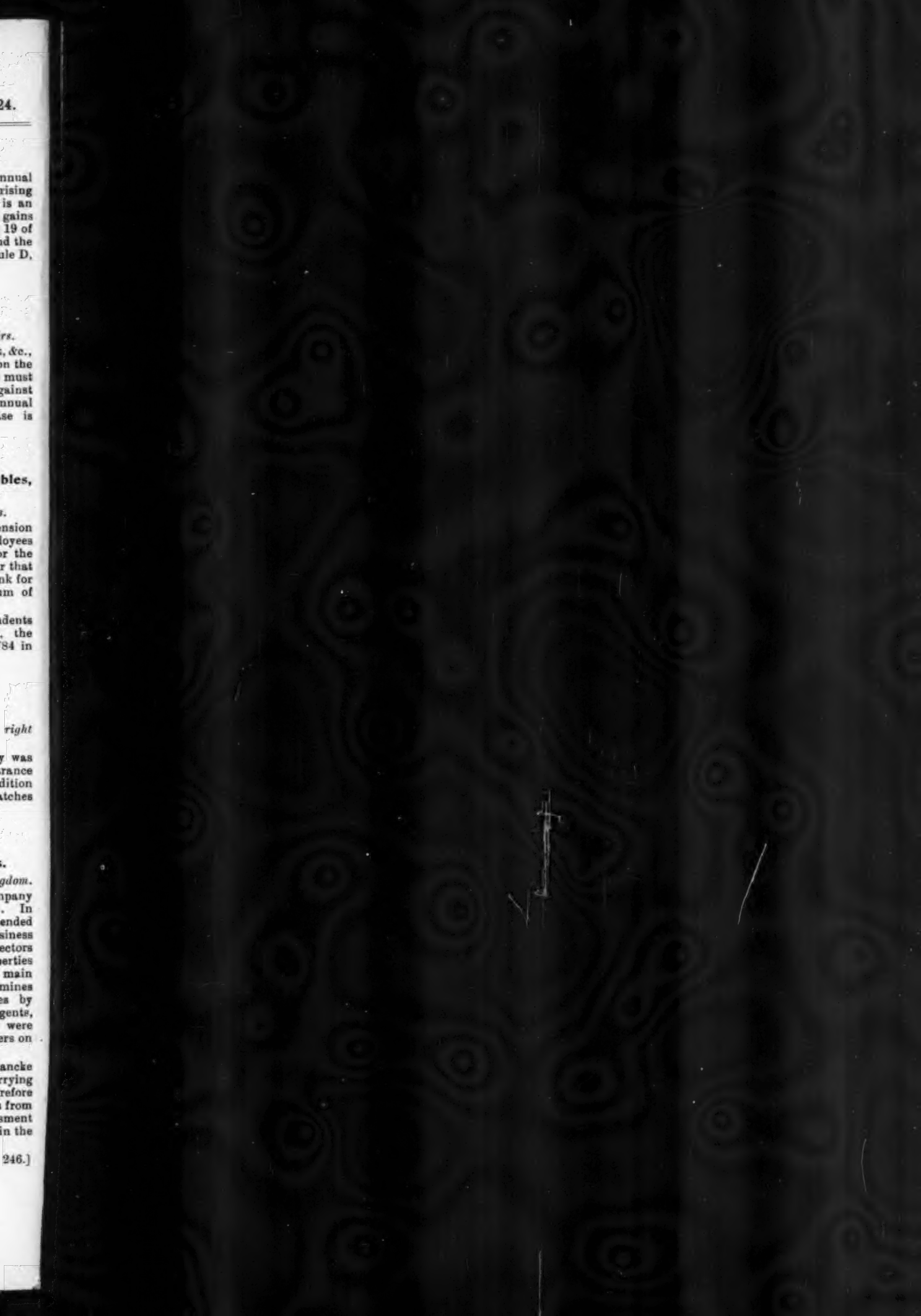
Profits or Gains from Trade carried on in United Kingdom.

The Aramayo Francke Mines, Limited, was a company registered in England and owning mines in Bolivia. In March, 1917, the company, by special resolutions, amended its articles of association to provide that the Bolivian business should be carried on and managed by a local board of directors who had the entire control and management of the properties and of all matters and accounts connected with the main business of the company, which was the working of mines in Bolivia and marketing the produce of the mines by its agents in this country. The company's former agents, Messrs. Avelino Aramayo & Co., a London firm, were employed by the local board in Bolivia to sell as brokers on commission the produce of the mines.

It was held by the Court of Appeal that the Aramayo Francke Mines, Limited, was resident in England, and was carrying on part of its trade in the United Kingdom, and was therefore properly assessed to income tax on its profits and gains from trade carried on in the United Kingdom. But an assessment of the local board abroad in the name of the agents in the United Kingdom could not be sustained.

[See *Incorporated Accountants' Journal*, July, 1923, p. 246.]

(C.A.; (1924) 40 T.L.R., 785.)



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